



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

April 28, 2005

Mr. Louis Haik
Krebsbach & Haik, Ltd.
225 South Sixth Street, Suite 4320
Minneapolis, MN 55402

Dear Mr. Haik:

Transmitted herewith are 14 copies of the Comfort Lake-Forest Lake Watershed District's Annual Financial Report including the Independent Auditor's Report on Compliance for the year ended December 31, 2004.

We understand that you intend to submit copies to the State Auditor's Office, the Board of Water and Soil Resources and to the Director of the Division of Waters at the Department of Natural Resources to fulfill the reporting requirements of the District.

Thank you for the opportunity to be of service. If you or the Board would like to discuss any topics in the Annual Financial Report, we are available at your convenience.

Sincerely,

HLB TAUTGES REDPATH, LTD.

Mark C. Gibbs, CPA

MCG/bmj

Enclosures

4810 White Bear Parkway White Bear Lake, Minnesota 55110
1303 South Frontage Road Suite 13 Hastings, Minnesota 55033

651 426 7000 651 426 5004 Fax
651 480 4990 651 426 5004 Fax

www.hlbtr.com

HLB Tautges Redpath, Ltd. is a member of International, a world-wide organization of accounting firms and business advisors.



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

April 28, 2005

Ms. Kathleen Blackford
Certified Public Accountant
3116 Fairview Avenue North
Roseville, MN 55113

Dear Kathleen:

Transmitted herewith are 2 copies of the Comfort Lake-Forest Lake Watershed District's Annual Financial Report including the Independent Auditor's Report on Compliance for the year ended December 31, 2004.

Additional copies have been sent to Mr. Louis Haik at Krebsbach & Haik. Mr. Haik will submit copies to the State Auditor's Office, the Board of Water and Soil Resources and to the Director of the Division of Waters at the Department of Natural Resources to fulfill the reporting requirements of the District.

Thank you for the opportunity to be of service. If you or the Board would like to discuss any topics in the Annual Financial Report, we are available at your convenience.

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**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2004

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WATERSHED DISTRICT
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**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT
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I. INTRODUCTORY SECTION

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**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT
ORGANIZATION
December 31, 2004**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
District Officers:		
Appointed:		
Board of Managers:		
Richard Damchik	President	September 22, 2006
Ken Banta	Vice-President	September 22, 2005
Tom Lynch	Treasurer	September 22, 2005
Jackie Anderson	Secretary	September 22, 2005
Dennis G. Larson	Manager	September 22, 2005

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II. FINANCIAL SECTION



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 the Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2004 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Comfort Lake-Forest Lake Watershed District's management. Our responsibility is to express an opinion 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 the Comfort Lake-Forest Lake Watershed District as of December 31, 2004, 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.

As described in Note 7 to the basic financial statements, the Comfort Lake-Forest Lake Watershed District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*, as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

4810 White Bear Parkway	White Bear Lake, Minnesota	55110	651 426 7000	651 426 5004 Fax	www.hlbtr.com
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The 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 through 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 the Comfort Lake-Forest Lake Watershed District's basic financial statements. The introductory section, individual fund statements and supplementary financial information 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 statements and supplementary financial information 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 it.

April 11, 2005

HLB Tautges Redpath Ltd.

HLB TAUTGES REDPATH, LTD.
Certified Public Accountants

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BASIC FINANCIAL STATEMENTS

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
STATEMENT OF NET ASSETS
December 31, 2004

Statement 1

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$156,040
Property taxes receivable:	
Delinquent	5,760
Due from county	2,515
Capital assets - net:	
Nondepreciable	9,437
Total assets	<u>173,752</u>
Liabilities:	
Accounts payable	<u>29,229</u>
Total liabilities	<u>29,229</u>
Net assets:	
Invested in capital assets, net of related debt	9,437
Unrestricted	<u>135,086</u>
Total net assets	<u><u>\$144,523</u></u>

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

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2004

Statement 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$99,610	\$ -	\$ -	\$ -	(\$99,610)
Programs	10,600	-	-	-	(10,600)
Projects	176,848	-	-	-	(176,848)
Total governmental activities	<u>\$287,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(287,058)</u>
General revenues:					
Property taxes					233,174
Grants and contributions not restricted to specific programs					13,641
Unrestricted investment earnings					<u>1,194</u>
Total general revenues					<u>248,009</u>
Change in net assets					(39,049)
Net assets - beginning					<u>183,572</u>
Net assets - ending					<u>\$144,523</u>

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

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2004

Statement 3

	<u>General</u>	<u>Survey and Data Acquisition</u>	<u>Total Governmental Funds</u>
Assets			
Cash and investments	\$153,174	\$2,866	\$156,040
Taxes receivable:			
Delinquent	5,760	-	5,760
Due from county	2,515	-	2,515
Total assets	<u>\$161,449</u>	<u>\$2,866</u>	<u>\$164,315</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$29,229	\$ -	\$29,229
Deferred revenue	5,760	-	5,760
Total liabilities	<u>34,989</u>	<u>0</u>	<u>34,989</u>
Fund balances:			
Undesignated:			
General Fund	126,460	-	126,460
Special Revenue Funds	-	2,866	2,866
Total fund balances	<u>126,460</u>	<u>2,866</u>	<u>129,326</u>
Total liabilities and fund balances	<u>\$161,449</u>	<u>\$2,866</u>	<u>\$164,315</u>
Fund balance reported above			\$129,326
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
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			<u>5,760</u>
Net assets of governmental activities			<u>\$144,523</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, 2004

Statement 4

	<u>General</u>	<u>Survey and Data Acquisition</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$233,191	\$ -	\$233,191
Intergovernmental	13,641	-	13,641
Investment income	1,194	-	1,194
Total revenues	<u>248,026</u>	<u>0</u>	<u>248,026</u>
Expenditures:			
Current:			
General government	99,610	-	99,610
Programs	-	10,600	10,600
Projects	176,848	-	176,848
Total expenditures	<u>276,458</u>	<u>10,600</u>	<u>287,058</u>
Revenues over (under) expenditures	(28,432)	(10,600)	(39,032)
Fund balance - January 1	<u>154,892</u>	<u>13,466</u>	<u>168,358</u>
Fund balance - December 31	<u><u>\$126,460</u></u>	<u><u>\$2,866</u></u>	<u><u>\$129,326</u></u>

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

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

Statement 5

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2004

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)	(\$39,032)
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:	
At December 31, 2003	(5,777)
At December 31, 2004	<u>5,760</u>
Change in net assets of governmental activities (Statement 2)	<u><u>(\$39,049)</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, 2004

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 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.

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 government.

The government 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.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

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 appropriations end with the fiscal year for which they were made.

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

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

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

E. 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.

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 at 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.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

J. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., storm water, man holes, control structures, and similar items), 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.

GASB Statement No. 34 requires the District to report and depreciate new infrastructure assets effective with the beginning of the current 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 to implement the general provisions of GASB Statement No. 34 in the current year and has elected not to report infrastructure assets acquired in years prior to 2004.

The District did not acquire any infrastructure assets during 2004.

K. 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.

L. 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 balances represent tentative plans for future use of financial resources.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

M. 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.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District, 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 or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

- a) United States government treasury bills, treasury notes, 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) Unrated 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.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Balances at December 31, 2004 are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
1) Insured or collateralized by securities held by the District or its agent in the District's name.	\$156,040	\$160,567
2) Collateralized with securities held by the pledging institution trust department in the District's name.	-	-
3) Uncollateralized or collateralized with securities not in the District's name.	<u>-</u>	<u>-</u>
Totals	<u><u>\$156,040</u></u>	<u><u>\$160,567</u></u>

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 acceptance of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

- 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 2004.

Note 3 RECEIVABLES AND DEFERRED REVENUE

There are no significant receivables balances not expected to be collected within one year of December 31, 2004.

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)	<u>\$5,760</u>	<u>\$ -</u>

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 as previously reported was as follows:

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

During the year ended December 31, 2004, the District board approved an amended capital asset policy. This policy increases the capitalization threshold to \$5,000.

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

Note 5 CONTINGENCIES

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

Note 6 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 general purpose financial statements.

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

Note 7 CHANGE IN ACCOUNTING PRINCIPLE

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The District is required to implement GASB 34 no later than the year ended December 31, 2004. The most significant effects of implementing GASB 34 during 2004 are as follows:

- Government-wide financial statements are prepared using full accrual accounting for all the District’s activities.
- The basic fund financial statements focus on major funds rather than fund types.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

The District also implemented the following pronouncements during 2004, which did not have a material effect on the accompanying financial statements:

- GASB Statement 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* – an Amendment of GASB Statements No. 21 and No. 34.
- GASB Statement 38, *Certain Financial Statement Note Disclosures*.

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REQUIRED SUPPLEMENTARY INFORMATION

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended December 31, 2004

Statement 6

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenue:				
Property taxes	\$236,359	\$236,359	\$233,191	(\$3,168)
Intergovernmental	13,641	13,641	13,641	-
Investment income	710	710	1,194	484
Total revenue	<u>250,710</u>	<u>250,710</u>	<u>248,026</u>	<u>(2,684)</u>
Expenditures:				
Current:				
Manager per diem and administrative	6,000	6,000	4,218	1,782
Dues and subscriptions	2,000	2,000	2,042	(42)
Office expense	1,200	1,200	1,420	(220)
Insurance	5,500	5,500	8,545	(3,045)
Accounting and auditing	7,800	7,800	7,050	750
Legal and administrative services	35,000	35,000	61,202	(26,202)
General engineering services	-	-	15,133	(15,133)
Projects	164,124	164,124	176,848	(12,724)
Contingencies	25,000	25,000	-	25,000
Total expenditures	<u>246,624</u>	<u>246,624</u>	<u>276,458</u>	<u>(29,834)</u>
Revenue over (under) expenditures	<u>\$4,086</u>	<u>\$4,086</u>	(28,432)	<u>(\$32,518)</u>
Fund balance - January 1			<u>154,892</u>	
Fund balance - December 31			<u>\$126,460</u>	

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2004

Note A LEGAL COMPLIANCE – 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 STATEMENTS

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

Statement 7

GENERAL FUND
BALANCE SHEET

December 31, 2004

With Comparative Amounts For December 31, 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and investments	\$153,174	\$152,856
Taxes receivable:		
Delinquent	5,760	5,777
Due from county	2,515	5,030
Total assets	<u>\$161,449</u>	<u>\$163,663</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$29,229	\$2,994
Deferred revenue	5,760	5,777
Total liabilities	<u>34,989</u>	<u>8,771</u>
Fund balance:		
Unreserved:		
Undesignated	<u>126,460</u>	<u>154,892</u>
Total liabilities and fund balance	<u>\$161,449</u>	<u>\$163,663</u>

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

Statement 8

GENERAL FUND

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE

For The Year Ended December 31, 2004

With Comparative Amounts For The Year Ended December 31, 2003

	<u>2004</u>	<u>2003</u>
Revenue:		
Property taxes	\$233,191	\$232,022
Intergovernmental	13,641	17,048
Investment income	1,194	853
Total revenue	<u>248,026</u>	<u>249,923</u>
Expenditures:		
Current:		
Manager per diem and administrative	4,218	3,594
Dues and subscriptions	2,042	2,000
Office expense	1,420	349
Insurance	8,545	3,898
Accounting and auditing	7,050	6,373
Legal and administrative services	61,202	52,776
General engineering services	15,133	296
Projects	176,848	136,871
Total expenditures	<u>276,458</u>	<u>206,157</u>
Revenue over (under) expenditures	(28,432)	43,766
Other financing sources (uses):		
Prior year reclassification	-	(28,878)
Fund balance - January 1	<u>154,892</u>	<u>140,004</u>
Fund balance - December 31	<u><u>\$126,460</u></u>	<u><u>\$154,892</u></u>

COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT
 SURVEY AND DATA ACQUISITION FUND
 BALANCE SHEET
 December 31, 2004
 With Comparative Amounts For December 31, 2003

Statement 9

	<u>2004</u>	<u>2003</u>
Assets		
Cash and investments	<u>\$2,866</u>	<u>\$18,378</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	<u>\$ -</u>	<u>\$4,912</u>
Fund balance:		
Unreserved:		
Undesignated	<u>2,866</u>	<u>13,466</u>
Total liabilities and fund balance	<u>\$2,866</u>	<u>\$18,378</u>

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

Statement 10

SURVEY AND DATA ACQUISITION FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

For The Year Ended December 31, 2004

With Comparative Amounts For The Year Ended December 31, 2003

	<u>2004</u>	<u>2003</u>
Revenue:		
Property taxes	<u>\$ -</u>	<u>\$ -</u>
Expenditures:		
Current:		
Programs	<u>10,600</u>	<u>15,412</u>
Revenue over (under) expenditures	(10,600)	(15,412)
Other financing sources (uses):		
Prior year reclassification	<u>0</u>	<u>28,878</u>
Net increase (decrease) in fund balance	(10,600)	13,466
Fund balance - January 1	<u>13,466</u>	<u>-</u>
Fund balance - December 31	<u><u>\$2,866</u></u>	<u><u>\$13,466</u></u>

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SUPPLEMENTARY INFORMATION

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

For Taxes Payable in 2004

<u>Watershed</u>	<u>Taxable Market Value</u>			<u>Referendum Market Value</u>
	<u>Real</u>	<u>Personal</u>	<u>Total</u>	
10 Carnelian Marine	\$514,895,000	\$2,676,600	\$517,571,600	\$472,952,900
14 South Washington	6,021,388,000	49,204,700	6,070,592,700	6,002,028,300
34 Ramsey-Washington Metro	2,054,915,500	1,620,600	2,056,536,100	2,049,854,100
38 Rice Creek	2,146,246,800	19,034,600	2,165,281,400	2,118,250,250
54 Valley Branch	2,577,456,900	21,304,800	2,598,761,700	2,542,921,700
69 Brown's Creek	1,114,280,500	4,602,000	1,118,882,500	1,089,568,900
71 Comfort Lake-Forest Lake	1,031,250,900	10,659,000	1,041,909,900	1,016,349,600
County Total	<u>\$15,460,433,600</u>	<u>\$109,102,300</u>	<u>\$15,569,535,900</u>	<u>\$15,291,925,750</u>

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

For Taxes Payable in 2003

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

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

Tax Capacity			Deductions			Taxable For LTR	Final FD Distribution	Taxable Value
Real	Personal	Total	Powerline	TIF	FD Contribution			
\$5,165,960	\$33,477	\$5,199,437	\$ -	\$ -	\$16,083	\$5,183,354	\$202,422	\$5,385,776
66,408,965	982,749	67,391,714	-	1,277,623	4,331,097	61,782,994	6,861,072	68,644,066
25,529,911	32,412	25,562,323	-	1,592,824	3,168,293	20,801,206	2,705,408	23,506,614
22,861,602	378,005	23,239,607	2,475	719,342	801,285	21,716,505	1,616,970	23,333,475
27,952,921	404,350	28,357,271	1,653	622,199	1,416,469	26,316,950	2,259,558	28,576,508
12,566,139	90,293	12,656,432	3,233	1,071,744	883,591	10,697,864	743,808	11,441,672
11,623,310	212,430	11,835,740	2,787	535,710	927,150	10,370,093	940,712	11,310,805
<u>\$172,108,808</u>	<u>\$2,133,716</u>	<u>\$174,242,524</u>	<u>\$10,148</u>	<u>\$5,819,442</u>	<u>\$11,543,968</u>	<u>\$156,868,966</u>	<u>\$15,329,950</u>	<u>\$172,198,916</u>

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

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OTHER REPORTS

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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE FOR LOCAL GOVERNMENT**

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

We have audited the basic financial statements of the Comfort Lake-Forest Lake Watershed District, as of and for the year ended December 31, 2004 and have issued our report thereon dated April 11, 2005.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six main 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 listed categories.

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

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

April 11, 2005

HLB TAUTGES REDPATH, LTD.
Certified Public Accountants

4810 White Bear Parkway White Bear Lake, Minnesota 55110 | 651 426 7000 651 426 5004 Fax | www.hlbr.com
1303 South Frontage Road Suite 13 Hastings, Minnesota 55033 | 651 480 4990 651 426 5004 Fax

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