



## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited 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, 2011, and have issued our report thereon dated April 18, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 20, 2011. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Results**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Comfort Lake-Forest Lake Watershed District are described in Note 1 to the financial statements. As described in Note 7 to the financial statements, Comfort Lake-Forest Lake Watershed District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011. The most significant effect of this standard is that fund balance is now classified into the five following categories: nonspendable, restricted, committed, assigned and unassigned. These categories are based on the constraint imposed on the use of resources. We noted no transactions entered into by Comfort Lake-Forest Lake Watershed District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Comfort Lake-Forest Lake Watershed District does not have any significant sensitive estimates affecting the financial statements.

Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. Comfort Lake-Forest Lake Watershed District does not have any particularly sensitive disclosures in its financial statements.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. An immaterial misstatement was not recorded related to an estimated amount of uncollectible taxes in the amount of \$2,300. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- Grant receivable of \$7,300
- Grant revenue of \$67,618

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated April 18, 2012.

#### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Comfort Lake-Forest Lake Watershed District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Information in Documents Containing Auditing Financial Statements**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. With respect to the introductory section accompanying the financial statements, we read the information presented and did not identify any material inconsistencies with the audited financial statements.

**Other Reports**

Various reports on compliance and internal controls are contained in the Other Reports section of the audited financial statements document.

**Closing**

This information is intended solely for the use of management and the Comfort Lake-Forest Lake Watershed District's Board, 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.

April 18, 2012

**COMFORT LAKE-FOREST LAKE  
WATERSHED DISTRICT**

**ANNUAL FINANCIAL REPORT**

December 31, 2011

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

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	<u>Reference</u>	<u>Page No.</u>
<b>INTRODUCTORY SECTION</b>		
Organization		3
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		7
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets	Statement 1	10
Statement of Activities	Statement 2	11
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	12
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	Statement 4	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds	Statement 5	14
Notes to Financial Statements		15
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	Statement 6	30
Budgetary Comparison Schedule - Note to RSI		31
Individual Fund Financial Statements:		
General Fund:		
Balance Sheet	Statement 7	34
Statement of Revenues, Expenditures and Changes in Fund Balance	Statement 8	35
Program and Project Implementation Fund:		
Balance Sheet	Statement 9	36
Statement of Revenue, Expenditures and Changes in Fund Balance	Statement 10	37
<b>OTHER REPORTS</b>		
Report on Internal Control		41
Schedule of Findings and Responses		43
Report on Compliance with Minnesota Legal Compliance Audit Guide for Political Subdivisions		45

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**INTRODUCTORY SECTION**



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COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

ORGANIZATION

December 31, 2011



<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, 2012
John T. Lynch	Treasurer	September 23, 2014
Wayne S. Moe	Secretary	September 23, 2012
Jon W. Spence	Manager	September 23, 2014

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**FINANCIAL SECTION**

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**TAUTGES REDPATH, LTD.**  
*Certified Public Accountants*

## 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, 2011 which collectively comprise Comfort Lake-Forest Lake Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Comfort Lake-Forest Lake Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Comfort Lake-Forest Lake Watershed District's 2010 financial statements and, in our report dated April 29, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Comfort Lake-Forest Lake Watershed District as of December 31, 2011, 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 discussed in Note 7 to the basic financial statements, Comfort Lake-Forest Lake Watershed District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011. Adoption of the provisions of this statement results in changes to classifications of the components of fund balance.

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 basic 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 through 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 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements 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, this 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 on or provide any assurance on it.

*HLB Tautges Redpath, Ltd*  
HLB TAUTGES REDPATH, LTD.

April 18, 2012

**BASIC FINANCIAL STATEMENTS**



COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

STATEMENT OF NET ASSETS

Statement 1

December 31, 2011

With Comparative Totals For December 31, 2010

	Governmental Activities	
	2011	2010
<b>Assets:</b>		
Cash and investments	\$1,305,376	\$1,147,690
Property taxes receivable:		
Delinquent	31,626	38,720
Due from county	5,298	14,170
Due from other governments	7,300	-
Prepaid expenses	3,068	3,068
Capital assets - net:		
Nondepreciable	9,437	9,437
Total assets	<u>1,362,105</u>	<u>1,213,085</u>
<b>Liabilities:</b>		
Accounts payable	64,657	50,916
Deposits payable	9,793	2,791
Unearned revenue	-	60,318
Compensated absences payable:		
Due within one year	5,632	2,902
Due in more than one year	1,694	-
Total liabilities	<u>81,776</u>	<u>116,927</u>
<b>Net assets:</b>		
Invested in capital assets	9,437	9,437
Unrestricted	1,270,892	1,086,721
Total net assets	<u>\$1,280,329</u>	<u>\$1,096,158</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, 2011

With Comparative Totals For The Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities 2011	2010
Primary government:						
Governmental activities:						
General government	\$122,996	\$ -	\$ -	\$ -	(\$122,996)	(\$95,963)
Programs	369,913	-	-	-	(369,913)	(160,757)
Projects	155,570	50	67,618	-	(87,902)	(148,293)
Total governmental activities	<u>\$648,479</u>	<u>\$50</u>	<u>\$67,618</u>	<u>\$0</u>	<u>(580,811)</u>	<u>(405,013)</u>
General revenues:						
Property taxes					720,866	727,744
Grants and contributions not restricted to specific programs					31,294	27,268
Unrestricted investment earnings					10,426	7,701
Other					2,396	1,407
Total general revenues					<u>764,982</u>	<u>764,120</u>
Change in net assets					184,171	359,107
Net assets - January 1					<u>1,096,158</u>	<u>737,051</u>
Net assets - December 31					<u>\$1,280,329</u>	<u>\$1,096,158</u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 December 31, 2011

Statement 3

	<u>General Fund</u>	<u>Program and Project Implementation Fund</u>	<u>Total Governmental Funds 2011</u>
<b>Assets</b>			
Cash and investments	\$293,986	\$1,011,390	\$1,305,376
Property taxes receivable:			
Delinquent	10,539	21,087	31,626
Due from county	5,298	-	5,298
Due from other governments	-	7,300	7,300
Prepaid items	3,068	-	3,068
Total assets	<u>\$312,891</u>	<u>\$1,039,777</u>	<u>\$1,352,668</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$10,924	\$53,733	\$64,657
Deposits payable	-	9,793	9,793
Deferred revenue	10,539	21,087	31,626
Total liabilities	<u>21,463</u>	<u>84,613</u>	<u>106,076</u>
<b>Fund balance:</b>			
Nonspendable	3,068	-	3,068
Committed	-	303,827	303,827
Assigned	-	651,337	651,337
Unassigned	288,360	-	288,360
Total fund balance	<u>291,428</u>	<u>955,164</u>	<u>1,246,592</u>
Total liabilities and fund balance	<u>\$312,891</u>	<u>\$1,039,777</u>	<u>\$1,352,668</u>
Fund balance reported above			\$1,246,592
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.			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>(7,326)</u>
Net assets of governmental activities			<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, 2011  
 With Comparative Totals For The Year Ended December 31, 2010

Statement 4

	General Fund	Program and Project Implementation Fund	Total Governmental Funds	
			2011	2010
<b>Revenues:</b>				
General property taxes	\$202,193	\$525,767	\$727,960	\$724,647
Intergovernmental	4,954	93,958	98,912	43,690
Investment income	2,815	7,611	10,426	7,701
Other	2,396	50	2,446	1,427
Total revenues	<u>212,358</u>	<u>627,386</u>	<u>839,744</u>	<u>777,465</u>
<b>Expenditures:</b>				
Current:				
General government	118,572	-	118,572	101,209
Programs	-	369,913	369,913	165,928
Projects	-	155,570	155,570	159,564
Total expenditures	<u>118,572</u>	<u>525,483</u>	<u>644,055</u>	<u>426,701</u>
Revenues over expenditures	<u>93,786</u>	<u>101,903</u>	<u>195,689</u>	<u>350,764</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	562,855
Transfers out	-	-	-	(562,855)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balance	93,786	101,903	195,689	350,764
Fund balance - January 1	<u>197,642</u>	<u>853,261</u>	<u>1,050,903</u>	<u>700,139</u>
Fund balance - December 31	<u>\$291,428</u>	<u>\$955,164</u>	<u>\$1,246,592</u>	<u>\$1,050,903</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**

**Statement 5**

For The Year Ended December 31, 2011

With Comparative Totals For The Year Ended December 31, 2010

	<u>2011</u>	<u>2010</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)	\$195,689	\$350,764
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	(7,094)	3,097
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(4,424)</u>	<u>5,246</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$184,171</u></u>	<u><u>\$359,107</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, 2011

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. FINANCIAL REPORTING ENTITY**

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

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

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

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

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

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

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

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

**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, 2011

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**D. BUDGETS AND BUDGETARY ACCOUNTING**

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

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

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

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

**E. CASH AND INVESTMENTS**

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

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

**F. PROPERTY TAX REVENUE RECOGNITION**

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

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, 2011

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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 by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. The credit is recognized as revenue by the District at the time of collection.

**I. USE OF ESTIMATES**

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

**J. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, 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, 2011

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GASB Statement No. 34 required the District to report and depreciate new infrastructure assets effective with the beginning of the 2004 calendar year. Infrastructure assets include lake improvements, dams and drainage systems. Neither their historical cost nor related depreciation has historically been reported in the financial statements. For governmental entities with total annual revenues of less than \$10 million for the fiscal year ended December 31, 1999, the retroactive reporting of infrastructure is not required under the provisions of GASB Statement No. 34. The District has elected not to report infrastructure assets acquired in years prior to 2004. The District did not acquire any infrastructure assets during 2004 through 2011.

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 Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

**L. LONG-TERM OBLIGATIONS**

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

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

**M. FUND 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.

*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.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011

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**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, 2010, from which the summarized information was derived.

**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 assets of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation states that “revenues on the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds”. The details of this (\$7,094) difference are as follows:

General property taxes deferred revenue:	
At December 31, 2010	(38,720)
At December 31, 2011	<u>31,626</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>(\$7,094)</u></u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011

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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 (\$4,424) difference are as follows:

Compensated absences payable:	
At December 31, 2010	2,902
At December 31, 2011	<u>(7,326)</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>(\$4,424)</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.

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.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011

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**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 \$1,305,376 and the bank balance was \$1,310,810. The entire bank balance was covered by federal depository insurance or covered by perfected collateral pledged and held in the District's name, except for \$10,050, which was uncollateralized.

**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.
- 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 2011.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2011

**Note 3 RECEIVABLES AND DEFERRED REVENUE**

Significant receivable balances not expected to be collected within one year of December 31, 2011 are as follows:

	Delinquent Property Taxes
General Fund	\$3,700
Program and Project Implementation Fund	9,900
Total	<u>\$13,600</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:

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$10,539	\$ -
Delinquent property taxes receivable (Program and Project Implementation Fund)	21,087	-
Total	<u>\$31,626</u>	<u>\$ -</u>

**Note 4 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

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

**COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2011

**Note 5 LONG-TERM DEBT**

**CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2011, was as follow:

	Balance 12/31/10	Additions	Deletions	Balance 12/31/11	Due Within One Year
Governmental activities: Compensated absences payable	\$2,902	\$7,326	(\$2,902)	\$7,326	\$5,632

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) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statute, Chapters 353 and 356.

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.

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 and PEPFF. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.



COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2011

**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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. The District was required to contribute the following percentages of annual covered payroll in 2011: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan GERS members. The District's contribution to the General Employees Retirement Fund for the years ended December 31, 2011, 2010 and 2009 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**

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. This standard changed fund balance classifications for governmental fund statements. Definitions for the new classifications are included in Note 1M.

**A. CLASSIFICATIONS**

At December 31, 2011, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Program and Project Implementation Fund</u>	<u>Total</u>
Nonspendable:			
Prepaid items	\$3,068	\$ -	\$3,068
Committed for:			
Programs and projects	-	303,827	\$303,827
Assigned for:			
Programs and projects	-	651,337	651,337
Unassigned	<u>288,360</u>	<u>-</u>	<u>288,360</u>
Total	<u>\$291,428</u>	<u>\$955,164</u>	<u>\$1,246,592</u>

**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, 2011, the unassigned fund balance of the General Fund was 100% of the subsequent year's budgeted expenditures.

**Note 8 INTERFUND TRANSFERS**

There were no interfund transfers during 2011. The transfer out of the General Fund in 2010 was made to establish the Program and Project Implementation Fund. The transfer in to the General Fund in 2010 is the result of closing the Survey and Data Acquisition Fund.

**Note 9 CONTINGENCIES**

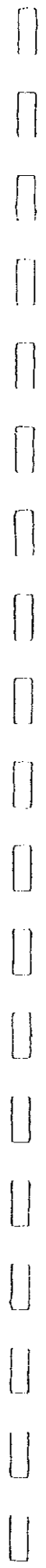
Management has indicated that there are no pending lawsuits or other actions in which the District is a defendant.

**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.

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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, 2011  
 With Comparative Actual Amounts For The Year Ended December 31, 2010

Statement 6

	2011			Variance with Final Budget	2010 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
<b>Revenues:</b>					
General property taxes	\$200,866	\$200,866	\$202,193	\$1,327	\$143,942
Intergovernmental	4,954	4,954	4,954	-	5,278
Investment income	-	-	2,815	2,815	7,701
Other	-	-	2,396	2,396	1,407
<b>Total revenues</b>	<b>205,820</b>	<b>205,820</b>	<b>212,358</b>	<b>6,538</b>	<b>158,328</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Manager per diem and administrative	119,250	119,250	41,390	77,860	39,979
Dues and subscriptions	4,400	4,400	2,777	1,623	2,908
Office expense	21,470	21,470	16,413	5,057	15,100
Insurance	5,000	5,000	4,958	42	4,966
Accounting and auditing	14,700	14,700	14,835	(135)	14,535
Legal and administrative services	12,000	12,000	7,422	4,578	9,792
General engineering services	14,000	14,000	30,777	(16,777)	13,929
<b>Total expenditures</b>	<b>190,820</b>	<b>190,820</b>	<b>118,572</b>	<b>72,248</b>	<b>101,209</b>
Revenues over expenditures	15,000	15,000	93,786	78,786	57,119
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	-	3,239
Transfers out	-	-	-	-	(559,616)
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(556,377)</b>
Net change in fund balance	\$15,000	\$15,000	93,786	\$78,786	(499,258)
Fund balance - January 1			197,642		696,900
Fund balance - December 31			\$291,428		\$197,642

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
NOTE TO RSI  
December 31, 2011

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**Note A BUDGETS**

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

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**INDIVIDUAL FUND FINANCIAL STATEMENTS**



COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
BALANCE SHEET  
GENERAL FUND  
December 31, 2011

Statement 7

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	<u>2011</u>
Assets	
Cash and investments	\$293,986
Property taxes receivable:	
Delinquent	10,539
Due from county	5,298
Prepaid items	3,068
Total assets	<u>\$312,891</u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	\$10,924
Deferred revenue	10,539
Total liabilities	<u>21,463</u>
Fund balance:	
Nonspendable	3,068
Unassigned	288,360
Total fund balance	<u>291,428</u>
Total liabilities and fund balance	<u>\$312,891</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 GENERAL FUND

Statement 8

For The Year Ended December 31, 2011

With Comparative Amounts For The Year Ended December 31, 2010

	2011	2010
Revenues:		
General property taxes	\$202,193	\$143,942
Intergovernmental	4,954	5,278
Investment income	2,815	7,701
Other	2,396	1,407
Total revenues	<u>212,358</u>	<u>158,328</u>
Expenditures:		
Current:		
Manager per diem and administrative	41,390	39,979
Dues and subscriptions	2,777	2,908
Office expense	16,413	15,100
Insurance	4,958	4,966
Accounting and auditing	14,835	14,535
Legal and administrative services	7,422	9,792
General engineering services	30,777	13,929
Total expenditures	<u>118,572</u>	<u>101,209</u>
Revenue over expenditures	<u>93,786</u>	<u>57,119</u>
Other financing sources (uses):		
Transfers in	-	3,239
Transfers out	-	(559,616)
Total other financing sources (uses)	<u>0</u>	<u>(556,377)</u>
Net change in fund balance	93,786	(499,258)
Fund balance - January 1	<u>197,642</u>	<u>696,900</u>
Fund balance - December 31	<u>\$291,428</u>	<u>\$197,642</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT  
 BALANCE SHEET  
 PROGRAM AND PROJECT IMPLEMENTATION FUND  
 December 31, 2011

Statement 9

	<u>2011</u>
<b>Assets</b>	
Cash and investments	\$1,011,390
Property taxes receivable:	
Delinquent	21,087
Due from other governments	<u>7,300</u>
Total assets	<u><u>\$1,039,777</u></u>
<b>Liabilities and Fund Balance</b>	
<b>Liabilities:</b>	
Accounts payable	\$53,733
Deposits payable	\$9,793
Deferred revenue	<u>21,087</u>
Total liabilities	<u>84,613</u>
<b>Fund balance:</b>	
Committed	303,827
Assigned	<u>651,337</u>
Total fund balance	<u>955,164</u>
Total liabilities and fund balance	<u><u>\$1,039,777</u></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, 2011  
 With Comparatives Amounts For The Year Ended December 31, 2010

Statement 10

	2011	2010
Revenue:		
General property taxes	\$525,767	\$580,705
Intergovernmental	93,958	38,412
Investment Income	7,611	-
Miscellaneous	50	20
Total revenue	<u>627,386</u>	<u>619,137</u>
Expenditures:		
Current:		
Programs:		
Stream monitoring	61,013	62,051
Best management practices	36,004	16,026
TMDL	-	4,429
Education	25,138	18,430
Grant research and preparation	4,790	1,419
Permitting and review	23,181	38,434
Rough Fish control and removal	39,235	23,377
Alum treatment	28,548	1,762
Regional stormwater	152,004	-
Projects:		
Miscellaneous	16,886	10,730
BMP cost share	12,728	23,643
Shoreland projects	-	2,356
FL44 administration, engineering and legal	20,312	5,566
NBL12 (Moody Lake)	71,163	13,250
FL44 assessment	-	10,311
WMP	34,481	93,708
Total expenditures	<u>525,483</u>	<u>325,492</u>
Revenue over expenditures	101,903	293,645
Other financing sources:		
Transfers in	-	559,616
Net change in fund balance	101,903	853,261
Fund balance - January 1	<u>853,261</u>	<u>-</u>
Fund balance - December 31	<u><u>\$955,164</u></u>	<u><u>\$853,261</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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Comfort Lake-Forest Lake Watershed District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Comfort Lake-Forest Lake Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Comfort Lake-Forest Lake Watershed District's internal control.

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider item 2011-1 in the attached schedule of findings and responses to be a significant deficiency.

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



Comfort Lake-Forest Lake Watershed District  
Report on Internal Control

This communication is intended solely for the information and use of management, members of the Board of Managers, 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.

April 18, 2012

Comfort Lake-Forest Lake Watershed District  
Report on Internal Control  
Schedule of Findings and Responses

**2011-1 Grant Revenue Recognition for Expenditure Driven Grants**

*Criteria:* Grant revenues related to expenditure driven grants should be recognized as expenditures are incurred, not when the cash is received.

*Condition:* In 2011, the District incurred \$7,300 in expenses related to the Bowser project, but the corresponding grant revenue and receivable was not recorded. In addition, grant revenue of \$60,318 that was deferred in 2010, was not recorded as revenue in 2011.

*Cause:* Unknown.

*Effect:* Revenues was understated by \$67,618 and accounts receivable was understated by \$7,300 in 2011.

*Recommendation:* We recommend the District develop procedures and policies to ensure that grant receivables are accrued at year end and that revenue recognition requirements are followed for expenditure driven grants.

*Management Response:* The District will continue to work with its accountant and auditor to identify all grant related revenue and expenditures in the proper fiscal period.

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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, 2011 and have issued our report thereon dated April 18, 2012.

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, except as noted in finding 2011-02.

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.

April 18, 2012

Comfort Lake-Forest Lake Watershed District  
Report on Compliance with Minnesota Legal  
Compliance Audit Guide for Political Subdivisions  
Schedule of Findings and Responses

## 2011-2 Deficiencies in Collateral for Deposits

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

**M.S. 118A.03 When and What Collateral Required.** Subdivision 1. **For deposits beyond insurance.** To the extent that funds deposited are in excess of available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state.

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

- (1) United States government treasury bills, treasury notes, treasury bonds;
- (2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- (3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- (4) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- (5) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

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

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

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

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

Comfort Lake-Forest Lake Watershed District  
Report on Compliance with Minnesota Legal  
Compliance Audit Guide for Political Subdivisions  
Schedule of Findings and Responses

Subd. 7. **Safekeeping.** All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection shall be approved by the government entity.

HIST: 1996 c 399 art 1 s 4

*Condition:* At December 31, 2011, the District held deposits in interest bearing savings accounts with First State Bank of Wyoming of \$1,185,465. Deposits up to \$250,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral required was \$1,029,011 (\$935,465 x 110%). Collateral in the amount of \$1,018,961 was provided, resulting in a collateral deficiency of 10,050.

*Cause:* Unknown.

*Effect:* The effect of noncompliance is not determinable.

*Recommendation:* We recommend the District implement controls to monitor compliance with Minnesota Statute 118A.03 on a regular basis.

*Management Response:* The Comfort Lake-Forest Lake Watershed District did remedy this issue in January 2012. The District will work with the First State Bank of Wyoming to monitor its bank balances to ensure it has sufficient collateral to comply with Minnesota Statute 118A.03. This will include verifying that there is sufficient collateral prior to receiving tax settlements from the County.

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