

COMPREHENSIVE

ANNUAL FINANCIAL REPORT

OF THE

CITY OF FOREST LAKE,
MINNESOTA

For the Year Ended

December 31, 2005

Prepared by

THE DEPARTMENT OF FINANCE
AND ADMINISTRATION

Charles Robinson, City Administrator

Ellen Paulseth, Finance Director

CITY OF FOREST LAKE
220 North Lake Street
Forest Lake, Minnesota 55025

CITY OF FOREST LAKE
Washington County, Minnesota

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Washington County, Minnesota

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CITY OF FOREST LAKE
Washington County, Minnesota

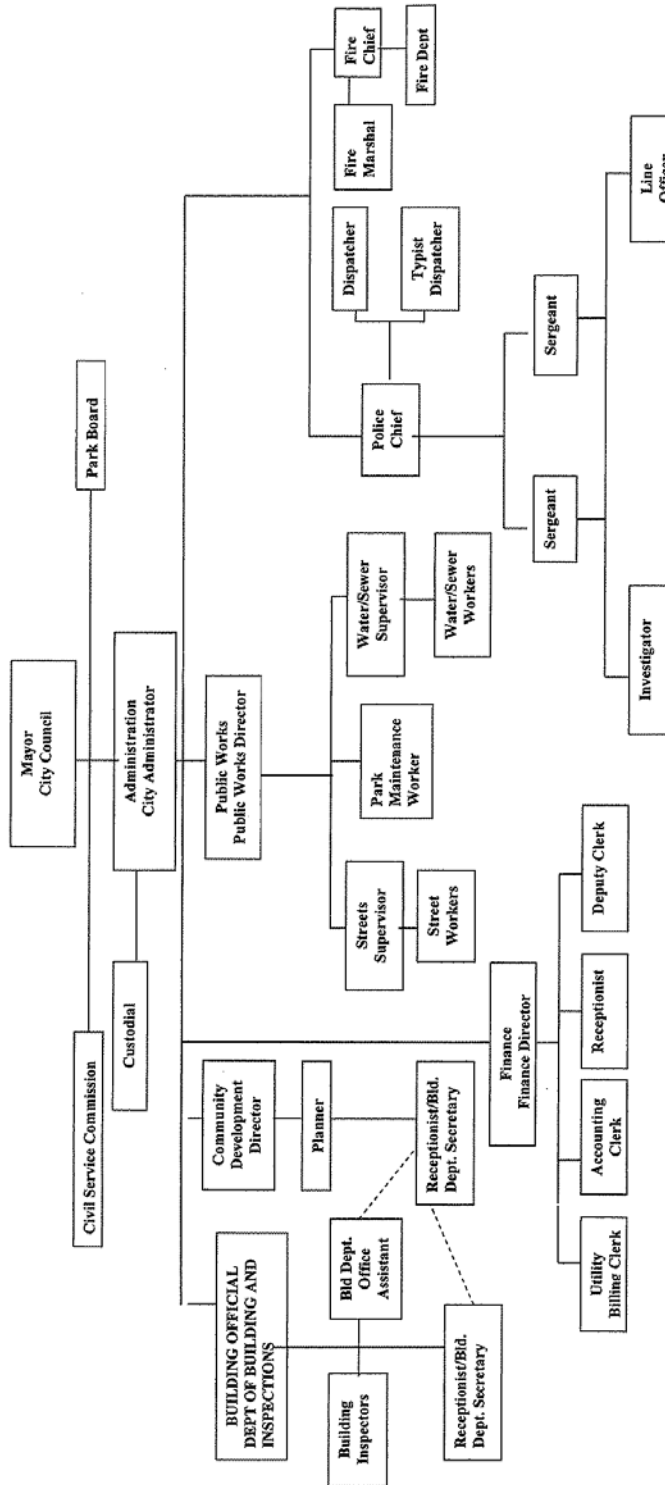
ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2005

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Terance Smith	Mayor	December 31, 2006
Judy Bull	Council Member	December 31, 2008
Richard Tschida	Council Member	December 31, 2008
Rick Ashbach	Council Member	December 31, 2006
Susan Young	Council Member	December 31, 2006
<u>Administration</u>		
Charles P. Robinson	City Administrator	
Ellen Paulseth	Finance Director	
Gary Sigfrinius	Fire Chief	
Clark Quiring	Police Chief	

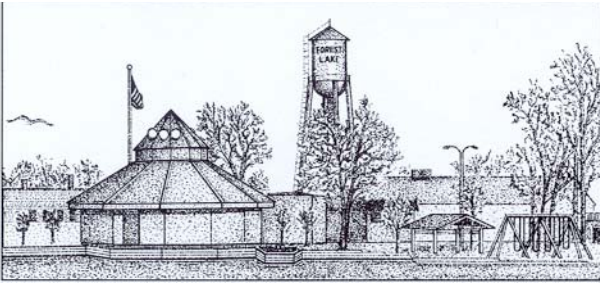
CITY OF FOREST LAKE
Washington County, Minnesota

ORGANIZATION CHART
December 31, 2005

Organization Chart For Forest Lake



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City of Forest Lake

ADMINISTRATION

Charles P. Robinson, City Administrator

June 12, 2006

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Forest Lake:

Minnesota statutes require all cities to issue an annual report on the financial position and related financial activity of the city. The report must be prepared in accordance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants or the Office of the State Auditor. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Forest Lake for the fiscal year ended December 31, 2005.

This report contains the representations of management concerning the finances of the City of Forest Lake. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The internal control system in the City of Forest Lake is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Kern, DeWenter, Viere, Ltd., a firm of licensed certified public accountants has audited the financial statements of the City of Forest Lake, for the year ended December 31, 2005. An independent audit was performed to provide reasonable assurance that the financial statements of the City of Forest Lake for the fiscal year ended December 31, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor issued an unqualified ("clean") opinion on the City of Forest Lake's financial statements. The independent auditor's report is located at the front of the financial section of this report.

In accordance with GAAP, management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is designed to complement this letter of transmittal and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Forest Lake, incorporated in 1893, is located in the northwestern corner of Washington County, Minnesota, which is in the northeastern suburbs of the Twin Cities metropolitan area. The City of Forest Lake and the entire northern suburbs area are experiencing rapid growth as population and housing development in the metropolitan area continues to increase. The City of Forest Lake currently occupies a land area of 36 square miles and serves a population of approximately 18,000. The City of Forest Lake is empowered to levy a property tax on both real and personal property located within its boundaries. It is also empowered by Minnesota statutes to extend its corporate limits by annexation, which it has done from time to time. The City of Forest Lake and the Township of Forest Lake merged in September of 2001.

The City of Forest Lake is a statutory “Option A” city, operating under the council-administrator form of government. Policy-making and legislative authority are vested in a city council consisting of a mayor and four other members, all elected on a non-partisan basis. The city council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring staff. The city administrator is responsible for carrying out the policies and ordinances of the council and overseeing the day-to-day operations of the city government. Council members serve four-year staggered terms, while the mayor is elected every two years. All council members and the mayor are elected at large.

The City of Forest Lake provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; water and sewer services; some sanitation services; and recreational and cultural activities. Certain housing services are provided through a legally separate Housing and Redevelopment Authority, which functions, in essence, as a department of the City of Forest Lake and therefore has been included as an integral part of the City of Forest Lake’s financial statements.

The Forest Lake City Council is required to adopt a final budget by no later than the close of the preceding fiscal year. This annual budget serves as the foundation for the City’s financial planning and control and is organized by fund, function, and department. All department heads and agencies of the City of Forest Lake submit requests for appropriation to the city administrator in July of each year. The city administrator presents a proposed budget to the council for review prior to the end of August of each year. The Council is required to hold public hearings on the proposed budget and adopt a final budget by no later than December 31, the end of the fiscal year. Any changes to the adopted budget require special approval from the City Council.

Local Economy

The largest employer within the boundaries of the City of Forest Lake is Independent School District #831, a K-12 educational facility employing approximately 1,100 people. Several discount retail stores located in the city also provide significant employment opportunities. Six financial institutions and several credit unions have a presence in Forest Lake. The largest industry in the city is a conveyor manufacturer that employs over 100 people.

Because of its location in a region with a varied economic base, unemployment is relatively stable. During the past ten years, the unemployment rate rose from 2.6% in 1996 to 3.4% in 2005, with a low of 1.8% in 1998/1999 and a high of 4.2% in 2003. Unemployment is expected either to remain stable or decrease further in the near term due to the growing regional economy. As a result of a variety of revitalization efforts undertaken over the past decade, the central business district has expanded dramatically.

The housing base of the City of Forest Lake is expected to increase by more than 300 new homes in 2006 and an additional 1,200 homes in 2007 due to a large commercial and residential development that is currently in the final planning stages. Washington County plans to locate a service center, including library, law enforcement, and licensing services in the midst of this new development.

During the past ten years, the City of Forest Lake's expenses by governmental function as a percentage of total expenses have remained relatively stable. Capital asset expenditures reached an all-time high of 35% of the total expenditures in 2005 due to a major renovation of the City's main park and the adjacent municipal parking lot.

During the same ten-year period, intergovernmental revenue decreased as a percentage of the total sources of revenue from 25% in 1996 to 15% in 2005. Charges for services and property taxes increased correspondingly to make up for the loss in state aids.

Long-term Financial Planning

The unreserved, undesignated fund balance in the general fund (6.5 percent of total general fund revenues) falls close to the guidelines set by the Council for budgetary and planning purposes (balanced budget). The Council typically plans to designate 50% of the next year's budgeted general fund expenditures for working capital, which it has done for the year 2005.

Relevant Financial Policies

Cash temporarily idle during the year is invested in certificates of deposit, commercial paper, and obligations of the U.S. Treasury and government agencies. The maturities of the investments range from 14 days to 5 years with an average maturity of 22 months. The investment income return for 2005 on all investments was 3.5%.

Major Initiatives

The City Council is in the planning stages of establishing the City's long-term goals and objectives. Plans include securing funding for a proposed \$22 million community center and recreational complex. The City of Forest Lake would likely incur additional operating costs to staff, operate, and maintain the new facilities.

In 2005 the City borrowed \$3,495,000 to complete a \$5 million utility project, including the construction of a new water treatment plant and water tower. These infrastructure improvements will satisfy the City's water needs until the year 2020.

The City is also working closely with county, state, federal, and neighboring communities to improve the area's state and county transportation network, including improvements to West Broadway Avenue. The proposed project includes reconstructing the existing roadway and adding six roundabouts at strategic intersection locations. Roundabouts, the newest form of intersection in the United States, provide safe and efficient traffic flow. Funding for most of the transportation improvements will need to come from state, county, and federal sources, with a minor portion supported by the local taxpayers. The project is expected to cost between \$12 and \$22 million, depending upon the alternative selected.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to governments who publish an easily readable and efficiently organized comprehensive annual financial report (CAFR) that satisfies both generally accepted accounting principles (GAAP) and applicable legal requirements. We believe that this CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the City Council for its support in maintaining the highest standards of professionalism in the management of the City of Forest Lake's finances.

Respectfully submitted,

Charles P. Robinson
City Administrator

Ellen Paulseth
Finance Director



KERN · DEWENTER · VIERE

INDEPENDENT AUDITORS' REPORT

April 6, 2006

Honorable Mayor and City Council
City of Forest Lake
Forest Lake, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Forest Lake, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing and Redevelopment Authority of Forest Lake, Minnesota, which represents the component unit column. Those financial statements were audited by other auditors whose reports have been furnished to us, and this report, insofar as it relates to the component unit mentioned above, is based on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Forest Lake, Minnesota, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of management inquiries regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



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Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest Lake's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information identified in the Table of Contents as the Introductory and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Forest Lake, Minnesota. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Kern, Dewenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

This section of the annual financial statements of the City of Forest Lake, Minnesota (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ending December 31, 2005. Please read it in conjunction with the financial statements, which follow this section. The Management's Discussion and Analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999.

FINANCIAL HIGHLIGHTS

- The assets of the City including the component units exceeded liabilities by \$ 96,861,119. Of this amount \$ 24,006,536 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets decreased by \$ 1,831,381.
- The City's governmental funds reported combined ending fund balances of \$ 12,845,650. Of this total amount, approximately \$ 8,542,666 is available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 5,232,754 or 85% of total general fund expenditures.
- The City's bonded debt increased by \$ 8,866,000 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented after the Statement of Activities. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of organizations outside the government. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Assets and Statements of Activities

Our analysis of the City begins with the Statement of Net Assets and the Statement of Activities. One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the years' activities?" The Statement of Net Assets and Statement of Activities both report information about the City as a whole and about its activities in a way that helps answer this question. With the exception of fiduciary funds, which have been excluded because they do not represent the City's financial resources, these statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current years' revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide financial statements includes information for not only the City (known as the primary government), but also legally separate entities for which the City is financially accountable (discretely presented component units). Discretely presented component units include the Forest Lake Housing and Redevelopment Authority (HRA).

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether the City's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the City.

Fund Financial Statements

Our analysis of the City's major funds begins with the funds' financial statements and provides detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money. The City's three kinds of funds – governmental, proprietary and fiduciary – use different approaches.

Governmental Funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation after the financial statements.

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic governmental fund financial statements can be found on pages 26-33 of this report.

Proprietary Funds – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

The basic proprietary fund financial statements can be found on pages 34-36 of this report.

Fiduciary Funds – The City currently has one fiduciary fund – the Cable Television Fund. The City acts as fiscal agent for the joint powers entity that is responsible for delivering cable television service to the joint powers area. The joint powers entity is made up of three separate entities: the City, the Township of New Scandia and the Township of Columbus. The City could serve as fiduciary or trustee for resources collected for other purposes, such as the City's flexible benefit plan. The resources held in a fiduciary capacity are reported in separate Statements of Fiduciary Net Assets. These activities are excluded from the City's other fund financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The basic fiduciary fund financial statement can be found on page 37 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-65 of this report.

Comparative Data

Certain comparative information between the current (2005) and prior year (2004) is required to be presented in the MD&A. Comparative data can be found on pages 14 and 16 of this report. This section will discuss and analyze significant differences between the two years.

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's net assets including the component units, decreased during 2005 by \$ 1,880,093. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Statement of Net Assets

	Governmental Activities		Primary Government		Total	
			Business-type Activities			
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 16,107,278	\$ 16,382,780	\$ 16,393,970	\$ 8,956,354	\$ 32,501,248	\$ 25,339,134
Capital Assets	66,835,869	68,602,584	20,513,242	19,302,145	87,349,111	87,904,729
Total Assets	82,943,147	84,985,364	36,907,212	28,258,499	119,850,359	113,243,863
Noncurrent Liabilities						
Outstanding	6,203,959	6,285,579	12,737,274	6,021,147	18,941,233	12,306,726
Other Liabilities	2,753,606	1,324,555	2,088,139	1,232,522	4,841,745	2,557,077
Total Liabilities	8,957,565	7,610,134	14,825,413	7,253,669	23,782,978	14,863,803
Net Assets:						
Invested in Capital Assets, Net of Related Debt	60,508,985	61,631,584	14,698,242	13,697,145	75,207,227	75,328,729
Restricted	5,448,848	1,590,917	-	-	5,448,848	1,590,917
Unrestricted	8,027,749	14,152,729	7,383,557	7,307,685	15,411,306	21,460,414
Total Net Assets	\$ 73,985,582	\$ 77,375,230	\$ 22,081,799	\$ 21,004,830	\$ 96,067,381	\$ 98,380,060

Governmental Activities

Net assets of the City's governmental activities decreased by \$ 2,908,340 or 3.7%. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirement was \$ 8,027,749 at December 31, 2005.

The City's capital assets increase was due primarily to increased investment in infrastructure assets related to the continued replacement of the City's aging infrastructure system and to accommodate new residential and commercial development. A major redevelopment of the City's main park and adjacent parking lot was near completion at year-end.

**CITY OF FOREST LAKE
Washington County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Business-Type Activities

The net assets of our business-type activities increased by \$ 1,076,969 or 5.1%. Unrestricted net assets increased by \$ 75,872 or 1%. The increase was due primarily to an increase in the Water and Sewer Utility Fund cash position as a result of increased demand for water and sewer services and a rate increase that became effective January 1, 2005. In addition, the City collected \$ 269,615 in water trunk and area charges and \$ 257,263 in sewer trunk and core charges related to new residential developments.

The following table indicates the changes in net assets for the City's governmental and business-type activities.

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 2
Statement of Activities

	Governmental Activities		Primary Government Business-type Activities		2005	2004
	2005	2004	2005	2004		
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,559,243	\$ 1,911,982	\$ 3,816,810	\$ 3,814,233	\$ 5,376,053	\$ 5,726,215
Operating Grants and Contributions	430,672	1,145,682	-	9,269	430,672	1,154,951
Capital Grants and Contributions	1,094,904	1,227,114	632,739	583,919	1,727,643	1,811,033
General Revenues:						
Property Taxes	5,285,200	4,222,676	-	-	5,285,200	4,222,676
State Aid	290,667	99,716	92,084	-	382,751	99,716
Developer Installed Utilities	-	-	-	438,484	-	438,484
Unrestricted Investment Earnings	264,279	189,402	345,335	88,477	609,614	277,879
Unrestricted Interest Income on						
Special Assessments	-	179,865	-	-	-	179,865
Miscellaneous	78,987	-	-	19,425	78,987	19,425
Gain on Sale of Assets	28,245	-	-	-	28,245	-
Total Revenues	<u>9,032,197</u>	<u>8,976,437</u>	<u>4,886,968</u>	<u>4,953,807</u>	<u>13,919,165</u>	<u>13,930,244</u>
Expenses:						
General Government	1,141,041	1,254,060	-	-	1,141,041	1,254,060
Public Safety	3,280,943	2,944,338	-	-	3,280,943	2,944,338
Public Works	6,426,181	5,081,846	-	-	6,426,181	5,081,846
Culture and Recreation	587,424	627,418	-	-	587,424	627,418
Economic Development	257,144	45,306	-	-	257,144	45,306
Unallocated	-	380,638	-	-	-	380,638
Interest on Long-Term Debt	267,814	347,328	-	333,932	267,814	681,260
Utility	-	-	3,440,801	3,185,941	3,440,801	3,185,941
Airport	-	-	340,265	164,756	340,265	164,756
Golf Course	-	-	8,933	6,735	8,933	6,735
Total Expenses	<u>11,960,547</u>	<u>10,680,934</u>	<u>3,789,999</u>	<u>3,691,364</u>	<u>15,750,546</u>	<u>14,372,298</u>
Change in Net Assets, Before Transfers	(2,928,350)	(1,581,909)	1,096,969	1,139,855	(1,831,381)	(442,054)
Transfers	20,000	122,588	(20,000)	(122,588)	-	-
Change in Net Assets	(2,908,350)	(1,459,321)	1,076,969	1,017,267	(1,831,381)	(442,054)
Net Assets, Beginning of Year	77,375,230	78,957,139	21,004,830	19,864,975	98,380,060	98,822,114
Prior Period Adjustment	(481,298)	-	-	-	(481,298)	-
Net Assets, Beginning of Year, as Restated	<u>76,893,932</u>	<u>78,957,139</u>	<u>21,004,830</u>	<u>19,864,975</u>	<u>97,898,762</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 73,985,582</u>	<u>\$ 77,375,230</u>	<u>\$ 22,081,799</u>	<u>\$ 21,004,830</u>	<u>\$ 96,067,381</u>	<u>\$ 98,380,060</u>

**CITY OF FOREST LAKE
Washington County, Minnesota**

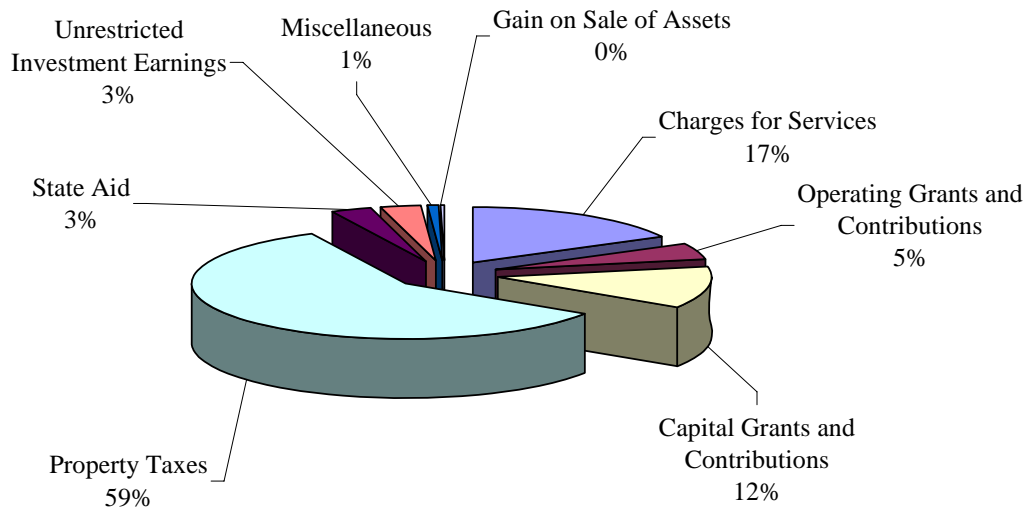
**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

Revenues – The following chart visually illustrates the City's revenue by sources for its governmental activities.

Revenues by Source – Governmental Activities



Revenues for the City's governmental activities increased by \$ 66,828 or .7%. The major components of this increase are explained as follows:

- Property taxes were increased to accommodate additional expenditure items, as noted below.
- Licenses and permits revenue decreased due to a reduction in the number of building permits issued.
- Charges for services revenue decreased due to a reduction in the amount of plan check fees collected. These decreases are directly related to the decline in development.

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Expenses for governmental activities increased by \$ 1,279,613 or 11.9%. The major components of this increase are explained as follows:

- Public works expenditures increased due to increased maintenance on City roads, mainly additional seal coating and crack filling contracts. As the number of road miles and the age of the infrastructure increases, the maintenance activity also increases.
- Capital outlay increased due to the purchase of a new dump truck, which was financed by bond proceeds.
- Unallocated expenditures increased due to an increase in the rates for the City's liability and workers' compensation insurance policies.
- Human services expenditures decreased because the prior year's expenditures included significant amounts related to structural repairs of the Senior Center building, which were substantially completed in the prior year.

Business-Type Activities

Revenues – The City's business-type revenues increased by \$ 55,749 or 1%. The majority of this increase was due to increased water and sewer usage revenue resulting from the increased demand for water and sewer services and a rate increase that went into effect January 1, 2005.

Expenses – The increase in business-type expenses was \$ 98,635 or 2.6%. The increases in expenses were primarily due to increased operating expenses related to expansion of the water and sewer services. Fees to the Metropolitan Council Waste Commission increased by \$ 148,571, due to a rate increase.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund – The increase in the City's General Fund balance of \$ 1,237,347 was due mainly to the receipt of General Obligation Equipment Bond proceeds that will be spent in subsequent years. The amount of \$ 1,365,116 has been designated for the purchase of equipment. The remaining deficit of \$ 127,769 was due primarily to building permit revenue and plan check fees coming in below budget.

Parkland Dedication Fund – The decrease of \$ 553,383 in the Parkland Dedication fund balance was due to the completion of a major renovation project at Lakeside Park.

1989 Tax Increment Fund – The decrease of \$ 1,329,373 was due to a major downtown redevelopment project, in which the municipal parking lot and sidewalks near Lakeside Park were reconstructed.

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

2000 General Obligation Improvement Bond Debt Service Fund – The decrease of \$ 738,816 was due to the transfer of \$ 780,000 to an escrow account, which was established to hold the proceeds of an advance refunding bond and the portion of the debt service fund that is dedicated to paying off the bonds. The City refunded these bonds in advance, therefore, the escrow proceeds will be invested until the call date of the original bonds.

Community Center – The deficit balance of \$ 155,400 in the Community Center Fund balance is due to the fund being newly created in the year 2004 to account for preliminary expenses and feasibility studies for a new Community Center. There are no sources of revenue at this point, other than donations, to fund the proposed project.

Airport Fund – The decrease of \$ 177,619 in net assets is due to consulting expenses in connection with the expansion of the airport industrial park, and interest from an interfund loan that will be re-paid with the sale of airport property. The deficit cash balance will be eliminated with the proceeds of the airport property early in the year 2006.

Water and Sewer Utility Fund – The increase in fund balance of \$ 1,261,637 is due in part to increased water and sewer services as a result of new development, and a rate increase that became effective January 1, 2005. The increase also includes water trunk and area charges and sewer core charges that are collected from developers and builders of new residential developments to assist with future infrastructure costs related to the development.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council did not revise the City's budget. Significant changes from the 2004 budget include:

- A decrease in the building permit revenues and plan check fees due to a decline in development;
- An additional staff member in the building inspection department and a new police officer; and
- Major equipment purchases in the street department.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City, including its component units, had \$ 87,996,467 invested in a broad range of capital assets. Refer to Note 4 of the basic financial statements for a schedule showing the City's capital asset activity. This amount represents a net decrease (including additions and deductions) of approximately \$ 583,924 over last year.

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

Currently, the City is developing an industrial park on 73 acres near the airport. The Industrial Park is zoned for light manufacturing use. In addition the City has approved concept plans for a large commercial/residential development near the airport. The development will include a county government center. Proposed plans for this development also include the addition of a commercial district and up to 1,500 new homes. This development alone has potential to increase the population of Forest Lake by more than 3,750 people in the next three to five years.

The City also plans to erect a new water tower and is currently building a new water treatment facility. The project is being financed with water and sewer revenue bonds and utility fund reserves.

Long-Term Debt

At year-end the City, including its component units, has \$ 21,442,000 in bonds and notes outstanding. During 2005, \$ 9,930,000 additional bonded debt was incurred and \$ 1,064,000 in debt was retired. Refer to Note 6 of the basic financial statements for a schedule showing the City's long-term debt activity.

The City's general obligation bond rating continues to carry an "A-1" bond rating from Moody's Investor's Service, which is a high rating for a city the size of Forest Lake.

During 2005, the City issued the \$ 4,935,000 General Obligation Crossover Refunding Bonds, Series 2005A. Bonds involved in the refunding include the following:

\$ 1,925,000 G.O. Improvement Bonds 2000A	4.40% - 4.90%
\$ 3,700,000 G.O. Water/Sewer Revenue Bonds 1999A	4.875% - 5.25%
\$ 1,740,000 G.O. Utility Revenue Bonds 1999	4.75% - 5.25%
\$ 615,000 G.O. Utility Revenue Bonds 2000B	4.45% - 4.95%

Since the Crossover Refunding Bonds are advance refunding bonds, the bond proceeds will be escrowed until they are needed to pay off the bonds. Likewise, the City escrowed \$ 780,000 in prepaid special assessments, which will be also be used to make bond payments. The escrowed funds are invested in State and Local Government Series (SLGS) securities at rates ranging from 2.79% - 4.12%, depending upon when the funds are needed. Coupon rates for the refunding bond range from 3.50% - 4.40%. The bonds are scheduled to be paid off in the year 2014, the year that the original debt would have been satisfied. It is estimated that the City will save \$ 446,775 in interest payments over the life of the bonds, without adversely affecting cash flows or significantly impacting the payment structure. Approximately one-half of this savings will be realized in the first six years.

CITY OF FOREST LAKE
Washington County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's appointed officials considered many factors when setting the fiscal year 2006 budget and the rates and fees that will be charged for the business-type activities. The major factors accounted for when adopting the General Fund budget were:

- A normal inflationary increase in expenditures of around 3%;
- An additional decrease in building permit revenue and plan check fees;
- An increase in the property assessment contract;
- An increase in the Community Development budget to update the City's comprehensive plan and the subdivision ordinance;
- An increase in the Police Department budget to fund an additional police officer, additional administrative hours, an increase in workers' compensation costs and increased vehicle maintenance costs;
- An increase in the Public Works Department budget to fund additional street maintenance, including asphalt, gravel, crackfill and sealcoat contracts;
- An increase in capital outlay expenditures to purchase new street maintenance equipment, which will be financed with General Obligation Equipment Notes.

Effective January 1, 2005, the City increased its water and sewer usage rates. The rate structure was changed to reflect higher prices for increased usage. The new rate structure, along with new service hookups, dramatically increased utility fund revenues in the year 2005.

CONTACT INFORMATION

This annual report is designed to provide a general overview of the City of Forest Lake, Minnesota finances for citizens, customers and others. Questions concerning any of the information contained in this report and request for additional information should be addressed to Chip Robinson, City Administrator, or Ellen Paulseth, Finance Director, City of Forest Lake, 220 North Lake Street, Forest Lake, Minnesota, 55025, or by phone at (651) 429-3550.

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CITY OF FOREST LAKE
Washington County, Minnesota

STATEMENT OF NET ASSETS
As of December 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Cash and Investments (Including Cash Equivalents)	\$ 9,303,511	\$ 10,513,474	\$ 19,816,985	\$ 161,858
Cash Held with Fiscal Agent	1,061,465	4,566,659	5,628,124	-
Restricted Cash	-	-	-	16,459
Receivables:				
Taxes Receivable	228,774	-	228,774	-
Special Assessments	2,027,625	672,176	2,699,801	-
Accounts Receivable	545,527	848,877	1,394,404	-
Interest Receivable	330,773	274,649	605,422	103
Due from Other Governments	388,942	88,284	477,226	4,034
Internal Balances	2,072,785	(2,072,785)	-	-
Prepaid Items	147,876	98,701	246,577	5,727
Land Held for Resale	-	1,403,935	1,403,935	-
Capital Assets:				
Land	2,533,056	641,502	3,174,558	11,530
Buildings and Improvements	1,668,685	385,178	2,053,863	1,484,229
Infrastructure	101,517,189	-	101,517,189	-
Water Plant and Tower	-	9,426,803	9,426,803	-
Wastewater Disposal Plant	-	229,498	229,498	-
Water Mains	-	6,250,192	6,250,192	-
Sanitary Sewers	-	6,611,558	6,611,558	-
Machinery and Equipment	4,312,674	2,087,511	6,400,185	61,373
Construction in Progress	3,185,057	1,303,247	4,488,304	10,562
Total Capital Assets	113,216,661	26,935,489	140,152,150	1,567,694
Less Accumulated Depreciation	(46,380,792)	(6,422,247)	(52,803,039)	(920,338)
Net Capital Assets	66,835,869	20,513,242	87,349,111	647,356
Total Assets	\$ 82,943,147	\$ 36,907,212	\$ 119,850,359	\$ 835,537
LIABILITIES AND NET ASSETS:				
Accounts Payable	\$ 329,853	\$ 120,530	\$ 450,383	\$ 4,232
Contracts Payable	167,308	588,095	755,403	-
Escrow Payable	55,500	-	55,500	-
Accrued Payroll Liabilities	150,215	18,527	168,742	-
Accrued Interest	108,262	625,535	733,797	-
Due to Other Governments	1,160	-	1,160	8,345
Longterm Liabilities:				
Due in More than One Year	6,203,959	12,737,274	18,941,233	24,048
Less Amounts Due Within One Year	1,941,308	735,452	2,676,760	5,174
Total Liabilities	8,957,565	14,825,413	23,782,978	41,799
Net Assets:				
Invested in Capital Assets, Net of Related Debt	60,508,985	14,698,242	75,207,227	647,356
Restricted for:				
Debt Service	5,133,109	-	5,133,109	-
Park Land Acquisition	315,739	-	315,739	-
Unrestricted	8,027,749	7,383,557	15,411,306	146,382
Total Net Assets	73,985,582	22,081,799	96,067,381	793,738
Total Liabilities and Net Assets	\$ 82,943,147	\$ 36,907,212	\$ 119,850,359	\$ 835,537

CITY OF FOREST LAKE
Washington County, Minnesota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			Component Unit Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business- type Activities		
Primary Government:								
Governmental Activities:								
General Government	\$ 1,141,041	\$ 126,244	\$ -	\$ -	\$ (1,014,797)	\$ -	\$ (1,014,797)	\$ -
Public Safety	3,280,943	888,819	222,119	-	(2,170,005)	-	(2,170,005)	-
Public Works	6,426,181	531,714	191,961	899,851	(4,802,655)	-	(4,802,655)	-
Culture and Recreation	587,424	12,466	16,592	195,053	(363,313)	-	(363,313)	-
Economic Development	257,144	-	-	-	(257,144)	-	(257,144)	-
Interest on Long-Term Debt	267,814	-	-	-	(267,814)	-	(267,814)	-
Total Governmental Activities	11,960,547	1,559,243	430,672	1,094,904	(8,875,728)	-	(8,875,728)	-
Business-type Activities:								
Utility	3,440,801	3,746,229	-	632,739	-	938,167	938,167	-
Airport	340,265	70,562	-	-	-	(269,703)	(269,703)	-
Golf Course	8,933	19	-	-	-	(8,914)	(8,914)	-
Total Business-type Activities	3,789,999	3,816,810	-	632,739	-	659,550	659,550	-
Total Governmental and Business-type Activities	\$ 15,750,546	\$ 5,376,053	\$ 430,672	\$ 1,727,643	(8,875,728)	659,550	(8,216,178)	-
Component Unit:								
Housing and Redevelopment Authority	\$ 213,875	\$ 118,364	\$ 24,324	\$ 19,339	\$ -	\$ -	\$ -	\$ (51,848)
General Revenues:								
Property Taxes					5,285,200	-	5,285,200	-
State Aid					290,667	92,084	382,751	-
Unrestricted Investment Earnings					264,279	345,335	609,614	3,136
Miscellaneous Revenues					78,987	-	78,987	-
Gain on Sale of Assets					28,245	-	28,245	-
Total General Revenues					5,947,378	437,419	6,384,797	3,136
Transfers					20,000	(20,000)	-	-
Change in Net Assets					(2,908,350)	1,076,969	(1,831,381)	(48,712)
Net Assets - Beginning, As Previously Stated					77,375,230	21,004,830	98,380,060	842,450
Prior Period Adjustment					(481,298)	-	(481,298)	-
Net Assets - Beginning, Restated					76,893,932	21,004,830	97,898,762	842,450
Net Assets - Ending					\$ 73,985,582	\$ 22,081,799	\$ 96,067,381	\$ 793,738

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CITY OF FOREST LAKE
Washington County, Minnesota

BALANCE SHEET -
GOVERNMENTAL FUNDS
As of December 31, 2005

	101	Special Revenue		Debt Service
	General	210 1986 Tax Increment	303 1989 Tax Increment	317 Refunding Bonds of 2005A
ASSETS:				
Cash and Investments (Including Cash Equivalents)	\$ 3,319,597	\$ 2,371,105	\$ 2,653,890	\$ 3,585
Cash Held with Fiscal Agent	-	-	-	1,061,465
Taxes Receivable	193,027	336	8,349	-
Special Assessments Receivable	-	-	-	-
Accounts Receivable	90,058	-	122,451	-
Interest Receivable	17,497	11,974	10,043	19,302
Due from Other Governments	4,321	-	-	-
Due from Other Funds	2,094,645	-	-	-
Prepaid Items	133,123	-	128	-
Total Assets	<u>\$ 5,852,268</u>	<u>\$ 2,383,415</u>	<u>\$ 2,794,861</u>	<u>\$ 1,084,352</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 199,485	\$ -	\$ 7,403	\$ -
Contracts Payable	-	-	89,795	-
Escrows Payable	38,500	-	-	-
Accrued Payroll Liabilities	146,550	-	-	-
Due to Other Governments	1,160	-	-	-
Due to Other Funds	-	-	-	-
Unearned Revenue	100,696	336	4,902	-
Total Liabilities	<u>486,391</u>	<u>336</u>	<u>102,100</u>	<u>-</u>
Fund Balances:				
Reserved for:				
Debt Service	-	-	2,692,633	1,084,352
Prepaid Items	133,123	-	128	-
Park Land Acquisition	-	-	-	-
Unreserved:				
Designated:				
General Fund	4,860,301	-	-	-
Special Revenue Funds	-	2,383,079	-	-
Capital Project Funds	-	-	-	-
Undesignated:				
General Fund	372,453	-	-	-
Special Revenue Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Capital Project Funds	-	-	-	-
Total Fund Balances	<u>5,365,877</u>	<u>2,383,079</u>	<u>2,692,761</u>	<u>1,084,352</u>
Total Liabilities and Fund Balances	<u>\$ 5,852,268</u>	<u>\$ 2,383,415</u>	<u>\$ 2,794,861</u>	<u>\$ 1,084,352</u>

Capital Projects		
<u>211</u>		
Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
\$ 600,938	\$ 354,396	\$ 9,303,511
-	-	1,061,465
128	26,934	228,774
1,411,986	615,639	2,027,625
273,117	59,901	545,527
263,673	8,284	330,773
184,113	200,508	388,942
430,000	-	2,524,645
-	14,625	147,876
<u>\$ 3,163,955</u>	<u>\$ 1,280,287</u>	<u>\$ 16,559,138</u>
\$ 96,182	\$ 26,783	\$ 329,853
77,513	-	167,308
17,000	-	55,500
-	3,665	150,215
-	-	1,160
-	451,860	451,860
1,839,316	612,342	2,557,592
<u>2,030,011</u>	<u>1,094,650</u>	<u>3,713,488</u>
-	77,009	3,853,994
-	14,625	147,876
-	315,739	315,739
-	-	4,860,301
-	55,677	2,438,756
1,133,944	-	1,133,944
-	-	372,453
-	88,807	88,807
-	(210,820)	(210,820)
-	(155,400)	(155,400)
<u>1,133,944</u>	<u>185,637</u>	<u>12,845,650</u>
<u>\$ 3,163,955</u>	<u>\$ 1,280,287</u>	<u>\$ 16,559,138</u>

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CITY OF FOREST LAKE
Washington County, Minnesota

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS -
GOVERNMENTAL FUNDS
As of December 31, 2005

Total Fund Balances - Governmental Funds	\$ 12,845,650
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	113,216,661
Less Accumulated Depreciation	(46,380,792)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bonds Payable	(7,982,000)
Compensated Absences Payable	(163,267)
Certain revenues, including property taxes and special assessments, will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and are therefore deferred in the governmental fund statements	
	2,557,592
Governmental funds do not report a liability for accrued interest on long-term debt until due and payable.	
	<u>(108,262)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 73,985,582</u></u>

CITY OF FOREST LAKE
Washington County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2005

	101	Special Revenue		Debt Service
		210	303	317
	General	1986 Tax Increment	1989 Tax Increment	Refunding Bonds of 2005A
REVENUES:				
Taxes	\$ 4,139,853	\$ 238,070	\$ 455,971	\$ -
Special Assessments	-	-	-	-
Licenses and Permits	442,346	-	-	-
Intergovernmental	566,689	-	224	-
Charges for Services	402,355	-	-	-
Fines and Forfeitures	128,370	-	-	-
Miscellaneous:				
Investment Income	21,035	54,074	74,739	22,795
Others	64,440	-	41,154	-
Total Revenues	<u>5,765,088</u>	<u>292,144</u>	<u>572,088</u>	<u>22,795</u>
EXPENDITURES:				
Current:				
General Government	1,091,694	-	-	-
Public Safety	2,640,885	-	-	-
Public Works	1,339,603	-	-	-
Culture and Recreation	265,148	-	-	-
Economic Development	241,538	388	2,568	-
Debt Service:				
Principal	85,000	-	400,000	-
Interest and Fiscal Charges	27,407	-	193,079	8,443
Capital Outlay:				
General Government	3,500	-	-	-
Public Safety	126,267	-	-	-
Public Works	269,665	-	1,300,495	-
Culture and Recreation	33,144	-	-	-
Total Expenditures	<u>6,123,851</u>	<u>388</u>	<u>1,896,142</u>	<u>8,443</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(358,763)	291,756	(1,324,054)	14,352
OTHER FINANCING SOURCES (USES):				
Issuance of Bonds	1,500,000	-	-	290,000
Sale of Capital Assets	26,918	-	-	-
Transfers In	69,200	-	-	780,000
Transfers Out	-	-	(5,319)	-
Total Other Financing Sources (Uses)	<u>1,596,118</u>	<u>-</u>	<u>(5,319)</u>	<u>1,070,000</u>
Net Change in Fund Balances	1,237,355	291,756	(1,329,373)	1,084,352
FUND BALANCES:				
Beginning of Year, as Previously Reported	4,128,522	2,091,323	4,022,134	-
Prior Period Adjustment	-	-	-	-
Beginning of Year, as Restated	<u>4,128,522</u>	<u>2,091,323</u>	<u>4,022,134</u>	<u>-</u>
End of Year	<u>\$ 5,365,877</u>	<u>\$ 2,383,079</u>	<u>\$ 2,692,761</u>	<u>\$ 1,084,352</u>

The Notes to the Financial Statements are an integral part of this statement.

<u>Capital Projects</u>		
<u>211</u>	Other	Total
Capital	Governmental	Governmental
Improvements	Funds	Funds
\$ 89	\$ 431,243	\$ 5,265,226
355,062	330,041	685,103
-	-	442,346
566,899	229,077	1,362,889
480,796	155,084	1,038,235
-	-	128,370
54,264	37,372	264,279
7,000	44,089	156,683
<u>1,464,110</u>	<u>1,226,906</u>	<u>9,343,131</u>
-	-	1,091,694
-	491,884	3,132,769
-	-	1,339,603
-	125,910	391,058
-	12,650	257,144
-	294,000	779,000
-	78,729	307,658
-	-	3,500
-	24,669	150,936
1,652,770	-	3,222,930
-	668,950	702,094
<u>1,652,770</u>	<u>1,696,792</u>	<u>11,378,386</u>
(188,660)	(469,886)	(2,035,255)
-	-	1,790,000
-	1,327	28,245
-	5,319	854,519
-	(829,200)	(834,519)
-	(822,554)	1,838,245
(188,660)	(1,292,440)	(197,010)
1,322,604	1,553,755	13,118,338
-	(75,678)	(75,678)
<u>1,322,604</u>	<u>1,478,077</u>	<u>13,042,660</u>
<u>\$ 1,133,944</u>	<u>\$ 185,637</u>	<u>\$ 12,845,650</u>

CITY OF FOREST LAKE
Washington County, Minnesota

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005**

Total Net Change in Fund Balances - Governmental Funds \$ (197,010)

Amounts reported for governmental activities in the Statement Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital Outlays	3,779,682
Depreciation Expense	(4,991,978)
Net Disposal of Capital Assets	(148,799)

Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (339,179)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (39,910)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net assets in the Statement of Activities. 779,000

Proceeds from long-term debt are recognized as an other financing source in the governmental funds but as a decrease in net assets in the Statement of Activities. (1,790,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 39,844

Change in Net Assets - Governmental Activities \$ (2,908,350)

CITY OF FOREST LAKE
Washington County, Minnesota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original and Final		Amounts	(Negative)
REVENUES:				
Property Taxes	\$ 4,207,982		\$ 4,139,853	\$ (68,129)
Licenses and Permits	572,075		442,346	(129,729)
Intergovernmental Revenue:	581,789		566,689	(15,100)
Charges for Services:	334,900		402,355	67,455
Fines and Forfeitures	128,000		128,370	370
Miscellaneous:				
Investment Income	-		21,035	21,035
Other	115,974		64,440	(51,534)
Total Revenues	5,940,720		5,765,088	(175,632)
EXPENDITURES:				
Current:				
General Government	914,879		1,091,694	(176,815)
Public Safety	2,679,162		2,640,885	38,277
Public Works	1,529,560		1,339,603	189,957
Culture and Recreation	277,954		265,148	12,806
Economic Development	270,965		241,538	29,427
Debt Service:				
Bond Principal	-		85,000	(85,000)
Bond Interest and Fiscal Charges	-		27,407	(27,407)
Capital Outlay	288,200		432,576	(144,376)
Total Expenditures	5,960,720		6,123,851	(163,131)
Excess of Revenues				
Under Expenditures	(20,000)		(358,763)	(338,763)
OTHER FINANCING SOURCES:				
Issuance of Bonds	-		1,500,000	1,500,000
Sale of Capital Assets	-		26,918	26,918
Transfers In	20,000		69,200	49,200
Total Other Financing Sources	20,000		1,596,118	1,576,118
Net Change in Fund Balances	\$ -		1,237,355	\$ 1,237,355
FUND BALANCES:				
Beginning of Year, as Previously Reported			4,128,522	
End of Year			\$ 5,365,877	

The Notes to the Financial Statements are an integral part of this statement.

CITY OF FOREST LAKE
Washington County, Minnesota

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
As of December 31, 2005

	631	612	613	
	Utility	Airport	Golf Course	Totals
ASSETS:				
Current Assets:				
Cash and Investments (Including Cash Equivalents)	\$ 10,438,999	\$ -	\$ 74,475	\$ 10,513,474
Cash Held with Fiscal Agent	4,566,659	-	-	4,566,659
Special Assessments Receivable	672,176	-	-	672,176
Accounts Receivable	848,812	65	-	848,877
Interest Receivable	274,273	-	376	274,649
Due from Other Governments	-	88,284	-	88,284
Due from Other Funds	262,021	-	-	262,021
Prepaid Items	94,988	3,668	45	98,701
Total Current Assets	<u>17,157,928</u>	<u>92,017</u>	<u>74,896</u>	<u>17,324,841</u>
Noncurrent Assets:				
Land	114,573	526,929	-	641,502
Buildings and Improvements	3,423	329,400	52,355	385,178
Water Plant and Tower	9,426,803	-	-	9,426,803
Wastewater Disposal Plant	229,498	-	-	229,498
Water Mains	6,250,192	-	-	6,250,192
Sanitary Sewers	6,611,558	-	-	6,611,558
Machinery and Equipment	1,906,972	128,086	52,453	2,087,511
Construction in Progress	1,303,247	-	-	1,303,247
Total Cost	<u>25,846,266</u>	<u>984,415</u>	<u>104,808</u>	<u>26,935,489</u>
Less Accumulated Depreciation	<u>(6,190,700)</u>	<u>(180,442)</u>	<u>(51,105)</u>	<u>(6,422,247)</u>
Net Capital Assets	<u>19,655,566</u>	<u>803,973</u>	<u>53,703</u>	<u>20,513,242</u>
Land Held For Resale	-	1,403,935	-	1,403,935
Total Noncurrent Assets	<u>19,655,566</u>	<u>2,207,908</u>	<u>53,703</u>	<u>21,917,177</u>
Total Assets	<u>\$ 36,813,494</u>	<u>\$ 2,299,925</u>	<u>\$ 128,599</u>	<u>\$ 39,242,018</u>
LIABILITIES AND NET ASSETS:				
Current Liabilities:				
Accounts Payable	\$ 114,395	\$ 6,135	\$ -	\$ 120,530
Contracts Payable	588,095	-	-	588,095
Accrued Payroll Liabilities	16,869	1,658	-	18,527
Due to Other Funds	-	2,334,806	-	2,334,806
Accrued Interest	205,090	420,445	-	625,535
Long-Term Liabilities Due Within One Year	735,452	-	-	735,452
Total Current Liabilities	<u>1,659,901</u>	<u>2,763,044</u>	<u>-</u>	<u>4,422,945</u>
Noncurrent Liabilities:				
Bonds Payable	13,460,000	-	-	13,460,000
Compensated Absences	12,726	-	-	12,726
Less Amounts Due in One Year	<u>(735,452)</u>	<u>-</u>	<u>-</u>	<u>(735,452)</u>
Total Noncurrent Liabilities	<u>12,737,274</u>	<u>-</u>	<u>-</u>	<u>12,737,274</u>
Total Liabilities	<u>14,397,175</u>	<u>2,763,044</u>	<u>-</u>	<u>17,160,219</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt Unrestricted	10,840,566	803,973	53,703	11,698,242
	<u>11,575,753</u>	<u>(1,267,092)</u>	<u>74,896</u>	<u>10,383,557</u>
Total Net Assets	<u>22,416,319</u>	<u>(463,119)</u>	<u>128,599</u>	<u>22,081,799</u>
Total Liabilities and Net Assets	<u>\$ 36,813,494</u>	<u>\$ 2,299,925</u>	<u>\$ 128,599</u>	<u>\$ 39,242,018</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF FOREST LAKE
Washington County, Minnesota

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	631	612	613	
	Utility	Airport	Golf Course	Totals
OPERATING REVENUES:				
User Charges	\$ 2,939,743	\$ 61,027	\$ -	\$ 3,000,770
Other	96,158	9,535	19	105,712
Total Operating Revenues	<u>3,035,901</u>	<u>70,562</u>	<u>19</u>	<u>3,106,482</u>
OPERATING EXPENSES:				
Wages, Salaries and Compensation	439,339	30,566	-	469,905
Materials and Supplies	277,684	45,397	-	323,081
Professional Services	157,037	124,147	380	281,564
Utilities	152,752	5,722	-	158,474
Repairs and Maintenance	111,994	3,416	3,883	119,293
Insurance	26,119	5,666	70	31,855
Depreciation	426,053	30,538	4,600	461,191
Metro Sewer Service Charges	977,421	-	-	977,421
State SAC Charges	146,421	-	-	146,421
Miscellaneous	75,983	39,451	-	115,434
Total Operating Expenses	<u>2,790,803</u>	<u>284,903</u>	<u>8,933</u>	<u>3,084,639</u>
Operating Income (Loss)	245,098	(214,341)	(8,914)	21,843
NONOPERATING REVENUES (EXPENSES):				
Special Assessments	209,626	-	-	209,626
Intergovernmental Grants	-	92,084	-	92,084
Connection Fees	710,328	-	-	710,328
Interest and Fiscal Charges	(553,584)	(55,362)	-	(608,946)
Investment Income	343,470	-	1,865	345,335
Loss on Sale of Capital Assets	(96,414)	-	-	(96,414)
Total Nonoperating Revenues (Expenses)	<u>613,426</u>	<u>36,722</u>	<u>1,865</u>	<u>652,013</u>
Income (Loss) Before Transfers and Capital Contributions	858,524	(177,619)	(7,049)	673,856
Capital Contributions	423,113	-	-	423,113
Transfer Out	(20,000)	-	-	(20,000)
Change in Net Assets	1,261,637	(177,619)	(7,049)	1,076,969
NET ASSETS:				
Beginning of Year	<u>21,154,682</u>	<u>(285,500)</u>	<u>135,648</u>	<u>21,004,830</u>
End of Year	<u>\$ 22,416,319</u>	<u>\$ (463,119)</u>	<u>\$ 128,599</u>	<u>\$ 22,081,799</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF FOREST LAKE
Washington County, Minnesota

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS**
For the Year Ended December 31, 2005

	631	612	613	
	Utility	Airport	Golf Course	Totals
CASH FLOWS - OPERATING ACTIVITIES:				
Receipts from Customers	\$ 2,645,653	\$ (17,274)	\$ 19	\$ 2,628,398
Payments to Suppliers	(1,623,192)	(243,802)	(5,832)	(1,872,826)
Payments to Employees	(422,013)	(29,025)	-	(451,038)
Net Cash Flows - Operating Activities	<u>600,448</u>	<u>(290,101)</u>	<u>(5,813)</u>	<u>304,534</u>
CASH FLOWS - NONCAPITAL FINANCING:				
Advances (Payments) from (to) Other Funds	(107,468)	198,017	-	90,549
Transfers to Other Funds	(20,000)	-	-	(20,000)
Net Cash Flows - Noncapital Financing Activities	<u>(127,468)</u>	<u>198,017</u>	<u>-</u>	<u>70,549</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Asset Acquisition	(1,494,424)	-	-	(1,494,424)
Proceeds from Sales of Capital Assets	148,833	-	-	148,833
Intergovernmental Grants	-	92,084	-	92,084
Special Assessments Received	294,044	-	-	294,044
Connection Fees Received	710,328	-	-	710,328
Proceeds from Issuance of Debt	8,140,000	-	-	8,140,000
Principal Paid on Long-Term Debt	(285,000)	-	-	(285,000)
Interest Paid on Long-Term Debt	(467,084)	-	-	(467,084)
Net Cash Flows - Capital Related Financing Activities	<u>7,046,697</u>	<u>92,084</u>	<u>-</u>	<u>7,138,781</u>
CASH FLOWS - INVESTING ACTIVITIES:				
Investment Income	220,443	-	1,838	222,281
Net Change in Cash and Cash Equivalents	7,740,120	-	(3,975)	7,736,145
Cash and Cash Equivalents - January 1	7,265,538	-	78,450	7,343,988
Cash and Cash Equivalents - December 31 (including \$ 4,566,659 Reported in Cash Held with Fiscal Agent)	<u>\$ 15,005,658</u>	<u>\$ -</u>	<u>\$ 74,475</u>	<u>\$ 15,080,133</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 245,098	\$ (214,341)	\$ (8,914)	\$ 21,843
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities				
Depreciation Expense	426,053	30,538	4,600	461,191
Accounts Receivable	(390,248)	448	-	(389,800)
Prepaid Items	32,973	(289)	(3)	32,681
Due from Other Governments	-	(88,284)	-	(88,284)
Accounts Payable	(6,067)	(5,956)	(1,496)	(13,519)
Contracts Payable	275,313	(13,758)	-	261,555
Salaries Payable	29,595	1,658	-	31,253
Compensated Absences Payable	(12,269)	(117)	-	(12,386)
Total Adjustments	<u>355,350</u>	<u>(75,760)</u>	<u>3,101</u>	<u>282,691</u>
Net Cash Flows - Operating Activities	<u>\$ 600,448</u>	<u>\$ (290,101)</u>	<u>\$ (5,813)</u>	<u>\$ 304,534</u>
NONCASH CAPITAL ACTIVITIES:				
Capital Contributions from Developers	\$ 423,113	\$ -	\$ -	\$ 423,113

The Notes to the Financial Statements are an integral part of this statement.

CITY OF FOREST LAKE
Washington County, Minnesota

STATEMENT OF FIDUCIARY NET ASSETS
For the Year Ended December 31, 2005

	<u>Cable TV</u> <u>Agency Fund</u>
ASSETS:	
Cash and Investments	\$ 50,067
Accounts Receivable	27,413
Interest Receivable	<u>253</u>
Total Assets	<u><u>\$ 77,733</u></u>
LIABILITIES:	
Accounts Payable	<u><u>\$ 77,733</u></u>

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CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Forest Lake is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

1. Component Units

Component units are legally separate entities for which the City (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 dependent upon by the potential component unit.

2. Discretely Presented Component Unit

In conformity with U.S. generally accepted accounting principles, the component unit's column in the government-wide Statements of Net Assets and Statement of Activities include the financial data of the City's component unit. This unit is reported in a separate column to emphasize that it is legally separate from the City.

The Housing and Redevelopment Authority of Forest Lake (HRA) meets the criteria to be included as a discrete presentation. The members of the Governing Board of the HRA are appointed by the City Council. Although the City does not have the authority to approve or modify the HRA's operational and capital budgets, the tax rates established by the HRA and bonded debt must be approved by the City Council.

Complete financials statements of the component unit can be obtained from the HRA of Forest Lake.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

3. Related Organizations

The Forest Lake Fire Department Relief Association (the “Association”) is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to its members in accordance with *Minnesota Statutes*. The membership appoints the Board of this Association and separate financial statements are issued for this Association. All funding is conducted in accordance with *Minnesota Statutes*, whereby state aid flows to the Association, tax levies are determined by the Association and are only reviewed by the City, and the Association pays benefits directly to its members. The Association may certify tax levies to Washington County directly if the City does not carry out this function. Because the Association is fiscally independent of the City, the separately issued financial statements of the Association have not been included within the City’s reporting entity.

4. Joint Ventures

a. Fire Contracts

The City and the Townships of Columbus and Wyoming have a joint powers agreement entered into January 1, 1992, whereby the fire department shall furnish fire services to member Townships. The City is responsible for the administration and management of the fire department. The joint powers agreement continues until its members decide to withdraw from the agreement. Withdrawal will only be permitted after payment has been made in full for all equipment, including equipment being purchased by equipment certificates. Pursuant to these agreements, the Townships contribute approximately 30% of the City’s yearly approved budget for fire protection. The City accounts for the fire contracts in the Fire Department Fund.

b. I-35 WE Coalition

The I-35 WE Coalition (the “Coalition”) includes cities and counties along I-35W and I35-E corridors in Anoka and Washington Counties. The goals of the I-35WE Coalition are to:

- Develop a cohesive transportation system in the area
- Balance land use and the transportation system
- Identify, develop and support regional transportation system improvements

To accomplish these goals, the counties and cities entered into a joint powers agreement under the authority provided by *Minnesota Statutes* 471.59. This agreement was signed by Washington County in 2004. The Coalition strives to coordinate programming of transportation systems through 2030 by an interactive process such that the transportation system is capable of supporting land use and development in the northeast metropolitan area.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

4. Joint Ventures (Continued)

b. I-35 WE Coalition (Continued)

The parties agree to hold regular meetings for the purpose of monitoring progress on the planning activities, providing guidance for such planning activities and coordinating between governing bodies, including Mn/DOT and the Metropolitan Council.

Currently, there are no direct costs associated with the work performed. However, if the parties agree that costs are to be incurred, the parties will amend the existing joint powers agreement or prepare a new agreement for that purpose. Any party may withdraw from the agreement upon 30 days written notice to the other parties in the agreement.

c. School Liaison Officer

The City and Independent School District No. 831 have a joint powers agreement entered into September 1, 1994, whereby the members have agreed to create, fund and implement the position of Police School Liaison Officers. The City will provide the services of two police officers and related support services to assist the District in establishing a Police School Liaison Officer Program. The City will bill the District for these services on a quarterly basis. The City accounts for this program in the General Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. 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, 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 or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise 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, as are the proprietary fund and fiduciary fund financial statements. 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 revenues to be available if they are collected within 60 days 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Description of Funds:

Major Governmental Funds:

General Fund – This Fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Tax Increment 1986 Special Revenue Fund – This Fund accounts for costs associated with TIF District Everton Industrial Park. The Park is a redevelopment district formed in 1986.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Description of Funds: (Continued)

Major Governmental Funds: (Continued)

Tax Increment 1989 Special Revenue Fund – This Fund accounts for costs associated with the Downtown Redevelopment TIF District. The District was formed in 1989 and includes downtown commercial properties and properties along West Broadway.

Improvement Bonds of 2005A Debt Service Fund – This Fund accounts for resources accumulated and payments made for principal and interest on this bond.

Capital Improvements Fund Capital Projects Fund – This Fund accounts for costs related to general government capital improvement projects. Examples of such projects include street improvements and bridge projects. Additionally, developer contributions are accounted for in this Fund.

Major Proprietary Funds:

Utility Enterprise Fund – This Fund accounts for the operations of the City’s sanitary sewer utility and water utility.

Airport Enterprise Fund – This Fund accounts for the activities of the government’s airport operations.

Golf Course Enterprise Fund – This Fund accounts for the activities of the City’s golf course operations at Castlewood Golf Course. The Golf Course is owned by the City and is leased to a private entity that manages daily operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Description of Funds: (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Component Unit (Discretely Presented)

The Forest Lake Housing and Redevelopment Authority maintains its records on the accrual basis of accounting.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits, Investments and Net Cash

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Minnesota Statutes requires that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

1. Deposits, Investments and Net Cash (Continued)

Investments for the government are reported at fair value. The Minnesota Municipal Investment Pool is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The reported value of the pool is the same as the fair value of the pool shares.

At December 31, 2005, cash and investments were comprised of deposits, money market savings accounts, certificates of deposit, securities and mortgage backed notes held by brokers. The City has a deposit policy that addresses custodial credit risk, specifying the legal requirements for the extent of collateralization of its deposits. Its investment policy addresses credit risk, but not concentration of credit risk or interest rate risk.

2. Receivables and Payables

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Washington County is the collecting agency for the levy and remits the collections to the City three times a year. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

All property tax receivables are shown at a gross amount since they are assessable to the property taxes and are collectible upon the sale of the property.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These payments are recorded as expenditures when consumed rather than when purchased.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as infrastructure assets with initial, individual costs of more than \$ 50,000, Building and improvement assets in excess of \$ 25,000 and all other assets greater than \$ 5,000. 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. Infrastructure assets acquired prior to the implementation of GASB Statement No. 34 have been reported at actual or estimated historical cost.

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.

Property, plant and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	25-75
Buildings and Improvements	7-40
Furniture and Office Equipment	3-10

5. Land Held for Resale

Land acquired by the City for subsequent resale is reported as an asset at the lower of cost or estimated realizable value in the Airport Enterprise Fund. The acquisition and resale is for development purposes.

6. Compensated Absences

The City compensates employees, upon termination or retirement, for all unused vacation.

Sick leave accrues at 1 day per month up to a maximum of 90 days paid at full pay; thereafter, an additional 90 days may be accrued at 1 day per month and paid at one half pay. Upon retirement, full-time employees will be paid severance pay as follows:

- a. After 10 years of service, 50% of unused sick leave up to a maximum of 30 days' pay.
- b. After 15 years of service, 50% of unused sick leave up to a maximum of 45 days' pay.
- c. After 20 years of service, 50% of unused sick leave up to a maximum of 55 days' pay.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

6. Compensated Absences

Vested or accumulated sick leave for governmental funds that is not expected to be liquidated with expendable available financial resources is recorded in the governmental activities on the Statement of Net Assets. Vested or accumulated vacation and sick leave in the proprietary fund is recorded in that fund.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity (Continued)

10. Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/ expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. In August of each year, City staff submits to the City Council, a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Expenditures may not legally exceed budgeted appropriations at the functional level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between functions within any fund. Management may amend budgets within a functional level, so long as the total function budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General Fund as well as the Fire Department and Economic Development Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects and those Special Revenue Funds for which budgets have not been adopted is accomplished through the use of project controls.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Deficit Fund Balances

The following funds had deficit fund balance or net assets at December 31, 2005:

Improvement Bonds of 2000 Debt Service Fund	\$ (134,849)
Tax Increment Bonds of 1998 Debt Service Fund	(75,971)
Community Center Capital Projects Fund	(155,400)
Airport Fund	(463,119)

C. Excess of Expenditures over Appropriations

Expenditures exceeded appropriations during the year ended December 31, 2005, in the General Fund by the following amounts:

<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
\$ 6,123,851	\$ 5,960,720	\$ 163,131

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash balances of the City’s funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund’s portion of this pool (or pools) is displayed on the financial statements as “cash and cash equivalents” or “investments.” For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized as follows:

A. Deposits

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does have a deposit policy addressing this risk, but does not specify the extent of collateralization. As of December 31, 2005, the City’s deposits were not exposed to custodial credit risk because they were insured and fully collateralized with securities held by the pledging financial institution’s trust department or agent and in the City’s name. At December 31, 2005, the City’s deposits had a carrying value of \$ 2,215,707. The HRA had deposits of \$ 178,317, also fully insured and collateralized.

B. Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>
U.S. Agencies	\$ 13,723,312	2.816
Commercial Paper	2,522,186	0.207
Brokered Money Market	152,269	N/A
Brokered Certificates of Deposit	<u>6,881,702</u>	1.414
Total Investments	<u><u>\$ 23,279,469</u></u>	

Portfolio Weighted Average Maturity 1.889

Interest Risk: The City’s current policy does not specifically address the risk of changes in interest rates.

Concentration of Credit Risk: The City’s investment policy permits portfolios with diverse mixes of types of investments. It does not specify percentages of a desired mix. As of December 31, 2005, the City’s investments in FHLB Callable Bonds and commercial paper held with General Electric were greater than 5%.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Credit Risk: As of December 31, 2005, the FHLB Bonds and mortgage backed notes were rated AAA by Standard & Poor's and Aaa by Moody's Investors Services. Its investments in commercial paper were rated P-1 by Moody's Investors Services and A1+ by Standard & Poor's. The trust money is invested in State and Local Government Securities (SLGS) which are not marketable securities and consequently are unrated.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's investments were not exposed to custodial credit risk at December 31, 2005, as all investments were covered by Securities Investor Protection Corporation (SIPC) and adequate supplemental insurance to cover the account balances. Certificates of deposit are also covered by FDIC insurance.

Deposits and investments are presented in the December 31, 2005 basic financial statements as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Statement of Net Assets:		
Cash and Investments	\$ 19,816,985	\$ 178,317
Cash with Fiscal Agent	5,628,124	-
Statement of Fiduciary Net Assets	<u>50,067</u>	<u>-</u>
Total Deposits and Investments	<u>\$ 25,495,176</u>	<u>\$ 178,317</u>

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Primary Government			Ending Balance
	Beginning Balance, As Restated	Increases	Decreases	
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 2,500,056	\$ 33,000	\$ -	\$ 2,533,056
Construction In Progress	1,024,047	2,666,332	(505,322)	3,185,057
Total Capital Assets not being Depreciated	<u>3,524,103</u>	<u>2,699,332</u>	<u>(505,322)</u>	<u>5,718,113</u>
Capital Assets being Depreciated:				
Infrastructure	100,604,399	932,790	(20,000)	101,517,189
Buildings	1,668,685	-	-	1,668,685
Machinery and Equipment	4,186,002	652,882	(526,210)	4,312,674
Total Capital Assets being Depreciated	<u>106,459,086</u>	<u>1,585,672</u>	<u>(546,210)</u>	<u>107,498,548</u>
Less Accumulated Depreciation for:				
Infrastructure	(37,585,657)	(4,503,740)	20,000	(42,069,397)
Buildings	(948,316)	(140,069)	-	(1,088,385)
Machinery and Equipment	(3,252,252)	(348,169)	377,411	(3,223,010)
Total Accumulated Depreciation	<u>(41,786,225)</u>	<u>(4,991,978)</u>	<u>397,411</u>	<u>(46,380,792)</u>
Total Capital Assets being Depreciated, Net	<u>64,672,861</u>	<u>(3,406,306)</u>	<u>(148,799)</u>	<u>61,117,756</u>
Governmental Activities Capital Assets, Net	<u>\$ 68,196,964</u>	<u>\$ (706,974)</u>	<u>\$ (654,121)</u>	<u>\$ 66,835,869</u>

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 641,502	\$ -	\$ -	\$ 641,502
Construction in Progress	1,078,751	1,332,490	(1,107,994)	1,303,247
Total Capital Assets not being Depreciated	1,720,253	1,332,490	(1,107,994)	\$ 1,944,749
Capital Assets being Depreciated:				
Buildings	381,755	3,423	-	385,178
Infrastructure	21,697,356	836,556	(15,861)	22,518,051
Machinery and Equipment	1,711,820	853,062	(477,371)	2,087,511
Total Capital Assets being Depreciated	23,790,931	1,693,041	(493,232)	24,990,740
Less Accumulated Depreciation for:				
Buildings and System	(117,485)	(16,389)	-	(133,874)
Infrastructure	(5,057,488)	(304,789)	-	(5,362,277)
Machinery and Equipment	(1,034,066)	(140,013)	247,983	(926,096)
Total Accumulated Depreciation	(6,209,039)	(461,191)	247,983	(6,422,247)
Total Capital Assets being Depreciated, Net	17,581,892	1,231,850	(245,249)	18,568,493
Business-type Activities Capital Assets, Net	\$ 19,302,145	\$ 2,564,340	\$ (1,353,243)	\$ 20,513,242

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 – CAPITAL ASSETS

Depreciation expense was charged to functions/programs of the government as follows:

Governmental Activities:	
General Government	\$ 9,437
Public Safety	99,157
Public Works, Including Depreciation of General Infrastructure Assets	4,700,271
Park and Recreation	<u>183,113</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,991,978</u>
Business-type Activities:	
Utility	\$ 426,053
Airport	30,538
Golf Course	<u>4,600</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 461,191</u>

Discretely Presented Component Unit

Capital asset activity for the HRA was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable Assets:				
Land	\$ 11,530	\$ -	\$ -	\$ 11,530
Construction in Progress	<u>30,747</u>	<u>19,339</u>	<u>(39,524)</u>	<u>10,562</u>
Total Nondepreciable Assets	<u>42,277</u>	<u>19,339</u>	<u>(39,524)</u>	<u>22,092</u>
Depreciable Assets:				
Buildings	1,432,643	53,182	(1,596)	1,484,229
Equipment - Dwelling	32,180	2,815	(2,539)	32,456
Equipment - Administration	<u>30,882</u>	<u>-</u>	<u>(1,966)</u>	<u>28,916</u>
Total Depreciable Assets	<u>1,495,705</u>	<u>55,997</u>	<u>(6,101)</u>	<u>1,545,602</u>
Total Capital Assets	<u>1,537,982</u>	<u>75,336</u>	<u>(45,625)</u>	<u>1,567,694</u>
Accumulated Depreciation:				
Buildings	805,426	68,255	(1,596)	872,085
Equipment - Dwelling	31,202	2,177	(10,463)	22,917
Equipment - Administration	<u>25,691</u>	<u>1,978</u>	<u>(2,333)</u>	<u>25,336</u>
Total Accumulated Depreciation	<u>862,319</u>	<u>72,411</u>	<u>(14,392)</u>	<u>920,338</u>
Depreciable Assets, Net	<u>633,387</u>	<u>(16,414)</u>	<u>8,291</u>	<u>625,264</u>
Capital Assets, Net	<u>\$ 675,664</u>	<u>\$ 2,925</u>	<u>\$ (31,233)</u>	<u>\$ 647,356</u>

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 5 – INTERFUND ACTIVITY

A. Transfers

Transfers during the year ended December 31, 2005 are as follows:

	Transfers In:			Total
	General Fund	Refunding Bonds of 2005A	Nonmajor	
Transfers Out:				
Utility	\$ 20,000	\$ -	\$ -	\$ 20,000
1989 Tax Increment	-	-	5,319	5,319
Nonmajor	49,200	780,000	-	829,200
	<u>49,200</u>	<u>780,000</u>	<u>-</u>	<u>829,200</u>
Total	<u>\$ 69,200</u>	<u>\$ 780,000</u>	<u>\$ 5,319</u>	<u>\$ 854,519</u>

Transfers were made to utilize unrestricted revenues to finance various programs accounted for in other funds in accordance with budgetary authorizations, except for the transfer to the Refunding Bonds of 2005A Fund, which was done in accordance with the refunding bond document agreements.

B. Due to/from Other Funds

Fund	Due From Other Funds	Due to Other Funds
General Fund	\$ 2,094,645	\$ -
Utility Proprietary Fund	262,021	-
Airport/Industrial Park Proprietary Fund	-	2,334,806
Capital Improvement Capital Projects Fund	430,000	-
Nonmajor	-	451,860
	<u>-</u>	<u>451,860</u>
Total	<u>\$ 2,786,666</u>	<u>\$ 2,786,666</u>

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 5 – INTERFUND ACTIVITY

B. Due to/from Other Funds (Continued)

The amounts due to the General Fund from the nonmajor funds represent accruals to absorb temporary negative cash balances in these funds.

Amounts due to the Utility and Nonmajor Funds from the Airport/Industrial Park Fund represent amounts paid by the Utility and Nonmajor Funds for the purchase of airport land to be used for economic development purposes.

NOTE 6 – LONG-TERM DEBT

A. General Obligation Bonds

The City issues General Obligation (G.O.) Bonds to provide funds for economic development and for the acquisition and construction of major capital facilities including infrastructure. G.O. Bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

G.O. Bonds are direct obligations and pledge the full faith and credit of the City. Tax increment bonds are expected to be repaid from tax increments received over the life of the tax increment districts. Special assessment bonds are expected to be repaid, in part, from assessments to the benefited properties.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 – LONG-TERM DEBT

A. General Obligation Bonds (Continued)

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
Governmental Activities:						
Special Assessment Bonds:						
1996A Improvement Bonds	09/01/96	4.00%-5.00%	\$ 155,000	02/01/06	\$ 15,000	\$ 15,000
1999 Improvement Bonds	03/16/99	4.70%	200,000	12/01/08	60,000	20,000
2000A Improvement Bonds	07/18/00	4.40%-4.90%	<u>1,925,000</u>	02/01/11	<u>1,275,000</u>	<u>1,275,000</u>
Total G.O. Debt			<u>2,280,000</u>		<u>1,350,000</u>	<u>1,310,000</u>
Refunding Bonds:						
1992 Refunding	02/01/06	3.10%-5.25%	830,000	02/01/06	40,000	40,000
2005A Advance Refunding Bonds (Government Portion)	04/21/05	3.50%-3.75%	<u>290,000</u>	02/01/24	<u>290,000</u>	<u>-</u>
Total Refunding Bonds			<u>1,120,000</u>		<u>330,000</u>	<u>40,000</u>
Tax Increment Bonds:						
1988 Setterholms	12/01/98	9.00%-10.25%	155,000	12/01/07	30,000	15,000
1989 Quon Yee	04/01/89	10.50%	455,000	12/01/08	135,000	40,000
1989 Legion	10/01/89	9.00%-9.50%	275,000	12/01/09	95,000	20,000
1990 Moen Martin	06/01/90	9.00%-9.25%	195,000	02/01/07	40,000	20,000
2003 Series 2003A	01/01/03	2.50%-4.10%	<u>5,000,000</u>	02/01/16	<u>4,375,000</u>	<u>330,000</u>
Total Tax Increment Debt			<u>6,080,000</u>		<u>4,675,000</u>	<u>425,000</u>
Equipment Certificates:						
2001 Equipment Certificates	05/01/01	4.85%	425,000	05/01/06	85,000	85,000
2003 Fire Equipment Certificates	05/01/03	1.35%-2.85%	70,000	05/01/08	42,000	14,000
2005C Equipment Certificates	11/17/05	3.20%-3.70%	1,500,000	02/01/15	1,500,000	-
Compensated Absences			-		163,267	67,308
Total Equipment Certificates			<u>1,995,000</u>		<u>1,627,000</u>	<u>99,000</u>
Total Governmental Long-Term Debt			10,355,000		8,145,267	1,941,308
Business-type Activities:						
G.O. Revenue Bonds						
1999A G.O. Utility Revenue Bonds	08/01/99	4.875%-5.250%	3,700,000	02/01/24	3,310,000	110,000
1999 G.O. Utility Revenue Bonds	08/01/99	4.75%-5.25%	1,740,000	02/01/20	1,605,000	50,000
2000B G.O. Utility Revenue Bonds	08/01/00	4.45%-4.95%	615,000	02/01/11	405,000	405,000
2005B G.O. Water Revenue Bonds	11/17/05	3.50%-3.85%	3,495,000	12/01/20	3,495,000	165,000
Refunding Bonds:						
2005A Advance Refunding Bonds (Enterprise Portion)	04/21/05	3.50%-4.20%	4,645,000	02/01/24	4,645,000	-
Compensated Absences			-		12,726	5,452
Total Business-type Activities			<u>14,195,000</u>		<u>13,472,726</u>	<u>735,452</u>
Total all Long-Term Liabilities			<u>\$ 24,550,000</u>		<u>\$ 21,617,993</u>	<u>\$ 2,676,760</u>

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 – LONG-TERM DEBT

A. General Obligation Bonds (Continued)

Long-term bonded indebtedness listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. The Fire Department Special Revenue Fund and the General Fund have historically been used to liquidate the outstanding equipment certificates and governmental activity compensated absences listed above. The remaining governmental outstanding bonds payable will be paid from various corresponding debt service funds. The Utility Fund has historically liquidated the business-type activity long-term debt.

Annual debt service requirements to maturity for G.O. Bonds are as follows:

Year Ended December 31,	Governmental Activities					
	G.O. Special Assessment Bonds			G.O. Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 1,310,000	\$ 33,525	\$ 1,343,525	\$ 40,000	\$ 6,219	\$ 46,219
2007	20,000	1,880	21,880	40,000	9,638	49,638
2008	20,000	940	20,940	55,000	7,975	62,975
2009	-	-	-	55,000	6,050	61,050
2010	-	-	-	65,000	3,950	68,950
2011-2015	-	-	-	75,000	1,406	76,406
2016-2020	-	-	-	-	-	-
Total	<u>\$ 1,350,000</u>	<u>\$ 36,345</u>	<u>\$ 1,386,345</u>	<u>\$ 330,000</u>	<u>\$ 35,238</u>	<u>\$ 365,238</u>

Year Ended December 31,	Governmental Activities					
	G.O. Tax Increment Financing Bonds			G.O. Equipment Certificates		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 425,000	\$ 178,520	\$ 603,520	\$ 99,000	\$ 43,202	\$ 142,202
2007	445,000	159,808	604,808	234,000	48,138	282,138
2008	425,000	139,895	564,895	264,000	40,254	304,254
2009	390,000	121,317	511,317	250,000	31,605	281,605
2010	375,000	106,911	481,911	265,000	22,913	287,913
2011-2015	2,130,000	312,279	2,442,279	515,000	47,936	562,936
2016-2020	485,000	9,943	494,943	-	-	-
Total	<u>\$ 4,675,000</u>	<u>\$ 1,028,673</u>	<u>\$ 5,703,673</u>	<u>\$ 1,627,000</u>	<u>\$ 234,048</u>	<u>\$ 1,861,048</u>

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 – LONG-TERM DEBT

A. General Obligation Bonds (Continued)

Year Ended December 31,	Business-type Activities					
	G.O. Revenue Bonds			Refunding Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 730,000	\$ 400,254	\$ 1,130,254	\$ -	\$ 6,219	\$ 6,219
2007	355,000	359,978	714,978	65,000	11,300	76,300
2008	375,000	345,006	720,006	65,000	9,025	74,025
2009	4,605,000	220,467	4,825,467	70,000	93,851	163,851
2010	210,000	100,140	310,140	300,000	174,565	474,565
2011-2015	1,150,000	386,130	1,536,130	1,430,000	709,594	2,139,594
2016-2020	1,390,000	161,655	1,551,655	1,765,000	397,486	2,162,486
2021-2025	-	-	-	950,000	85,558	1,035,558
Total	<u>\$ 8,815,000</u>	<u>\$ 1,973,630</u>	<u>\$ 10,788,630</u>	<u>\$ 4,645,000</u>	<u>\$ 1,487,598</u>	<u>\$ 6,132,598</u>

On April 21, 2005, the City issued \$ 4,935,000 G.O. Advance Refunding Bonds, Series 2005A, with an average rate of 4.104% to refund the principal on the \$ 1,925,000 G.O. Improvement Bonds, Series 2000A; the \$ 3,700,000 G.O. Utility Revenue Bonds, Series 1999A; the \$ 1,740,000 G.O. Utility Revenue Bonds, Series 1999 and the \$ 615,000 G.O. Utility Revenue Bonds, Series 2000B. The City completed the crossover refunding to reduce its debt service payment over the next 18 years by \$ 445,504. The net present value cash flow savings resulting from the refunding is \$ 993,552 and will provide net present value benefits of \$ 216,864.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 – LONG-TERM DEBT

B. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities:					
G.O. Bonds Payable:					
Special Assessment	\$ 1,580,000	\$ -	\$ 230,000	\$ 1,350,000	\$ 1,310,000
Refunding	80,000	290,000	40,000	330,000	40,000
Equipment Certificates	226,000	1,500,000	99,000	1,627,000	99,000
Tax Increment	5,085,000	-	410,000	4,675,000	425,000
Total G.O Bonds Payable	<u>6,971,000</u>	<u>1,790,000</u>	<u>779,000</u>	<u>7,982,000</u>	<u>1,874,000</u>
Compensated Absences	<u>123,357</u>	<u>158,525</u>	<u>118,614</u>	<u>163,268</u>	<u>67,308</u>
Total Governmental Activities	<u>\$ 7,094,357</u>	<u>\$ 1,948,525</u>	<u>\$ 897,614</u>	<u>\$ 8,145,268</u>	<u>\$ 1,941,308</u>
Business-type Activities:					
Bonds Payable:					
Tax Increment Bonds	\$ 80,000	\$ -	\$ 80,000	\$ -	\$ -
Revenue Bonds	5,525,000	3,495,000	205,000	8,815,000	730,000
Refunding Bonds:					
G.O. Utility Revenue Bonds, Series 2005A	-	4,645,000	-	4,645,000	-
Total Bonds Payable	<u>5,605,000</u>	<u>8,140,000</u>	<u>285,000</u>	<u>13,460,000</u>	<u>730,000</u>
Compensated Absences	<u>12,386</u>	<u>19,533</u>	<u>19,193</u>	<u>12,726</u>	<u>5,452</u>
Total Business-type Activities	<u>\$ 5,617,386</u>	<u>\$ 8,159,533</u>	<u>\$ 304,193</u>	<u>\$ 13,472,726</u>	<u>\$ 735,452</u>
Total Primary Government	<u>\$ 12,711,743</u>	<u>\$ 10,108,058</u>	<u>\$ 1,201,807</u>	<u>\$ 21,617,994</u>	<u>\$ 2,676,760</u>

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 7 – FUND EQUITY

A. Reserved and Designated Fund Balance

Reserves represent those portions of fund equity appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

The following reserves and designations existed at December 31, 2005.

	<u>Fund Balance</u>
Reserved for Debt Service:	
1989 Debt Service	\$ 2,692,633
Refunding Bonds of 2005A	1,084,352
Nonmajor Funds	77,009
Total Reserved for Debt Service	3,853,994
Reserved for Prepaid Items:	
General Fund	133,123
1989 Debt Service	128
Nonmajor Funds	14,625
Total Reserved for Prepaid Items	147,876
Reserved for Parkland Acquisition:	
Nonmajor Funds	315,739
Unreserved and Designated:	
General Fund:	
Equipment Purchases	1,365,116
Designated for Working Capital	3,495,185
1986 Tax Increment: Designated for TIF Expenditures	2,383,079
Capital Improvements:	
Designated for Redevelopment Projects	1,133,944
Nonmajor:	
Designated for Drug Enforcement Programs	55,677
Total Unreserved and Designated	8,433,001
Total	\$ 12,750,610

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 8 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust with other cities in the state, a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the League for its insurance coverage. The League of Minnesota Cities Insurance Trust is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies. The amount of these deductibles is 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.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2005 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2005, there are no other claims liabilities reported based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Component Unit

The component unit is insured for losses from fire or casualty, injury to workers and misappropriation of funds. The various insurance policies are subject to deductible amounts and maximum coverages. If the deductibles and maximums are exceeded, this could cause the component unit to suffer losses if a loss is incurred from any incidents. The ultimate outcome of insured losses cannot presently be determined and no provision for any liability that may result, if any, has been made in the financial statements.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employee’s Retirement Association

A. Plan Description

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

PERF members belong to either the Coordinated Plan or 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. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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.

Two methods are used to compute benefits for PERF’s Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all PEPFF and PERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age for unreduced social security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employee’s Retirement Association (Continued)

A. Plan Description (Continued)

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 yet receiving them, are bound by the provisions in effect at the time they last terminated their public service.

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 5.1%, respectively, of their annual covered salary. PEPFF members are required to contribute 6.2% of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased to 5.5 on January 1, 2006. PEPFF members were required to contribute 6.2% of their annual covered salary in 2005. That rate will increase to 7.0% in 2006. The City of Forest Lake is required to contribute the following percentages of annual covered payroll in 2005: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members and 9.3% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.0% and 10.5%, respectively, effective January 1, 2006. The City’s contributions to PERF for the years ending December 31, 2005, 2004 and 2003 were \$ 92,729, \$ 89,492 and \$ 81,054, respectively. The City’s contributions to PEPFF for the years ending December 31, 2005, 2004 and 2003 were \$ 115,876, \$ 111,407 and \$ 107,559, respectively. The City’s contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

To better reflect the fiduciary nature of the Cable TV Fund, a prior period adjustment of \$ 75,678 was made in 2005 to report the Cable TV Fund as an Agency Fund. Adjustments to the government-wide statements in the amount of \$ 405,620 were made to reflect changes made to historical costs of capital assets and related accumulated depreciation.

CITY OF FOREST LAKE
Washington County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 11 – CONTRACT COMMITMENTS

At December 31, 2005, the City has commitments for various construction projects as follows:

Universal Enterprises	\$ 156,335
Hardrives, Inc.	9,863
Forest Lake Contracting	42,275
Gridor Construction	2,035,241
Northdale Construction	14,139

NOTE 12 – SUBSEQUENT EVENT

Effective January 1, 2006, the City will provide insurance coverage in the City's group medical hospitalization insurance plan for those municipal employees who terminate employment with the City and have more than 30 years of service with the City. The employee's right to City-provided insurance coverage will terminate after 10 years of retirement.

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SUPPLEMENTARY INFORMATION

CITY OF FOREST LAKE
Washington County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
As of December 31, 2005

Special Revenue

	203	207	209	212	248	
	Parkland Dedication	Drug Forfeiture	Fire Department	Economic Development	TIF Administration	Total
ASSETS:						
Cash and Investments	\$ 150,322	\$ 55,404	\$ -	\$ 59,676	\$ 13,072	\$ 278,474
Taxes Receivable	-	-	17,749	2,199	-	19,948
Special Assessments Receivable	-	-	-	-	-	-
Accounts Receivable	-	-	59,901	-	-	59,901
Interest Receivable	4,120	273	-	301	66	4,760
Due from Other Governments	161,571	-	38,937	-	-	200,508
Prepaid Items	-	-	14,625	-	-	14,625
Total Assets	<u>\$ 316,013</u>	<u>\$ 55,677</u>	<u>\$ 131,212</u>	<u>\$ 62,176</u>	<u>\$ 13,138</u>	<u>\$ 578,216</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 274	\$ -	\$ 25,767	\$ 742	\$ -	\$ 26,783
Accrued Payroll Liabilities	-	-	3,530	135	-	3,665
Due to Other Funds	-	-	62,289	-	-	62,289
Unearned Revenue	-	-	9,475	1,156	-	10,631
Total Liabilities	<u>274</u>	<u>-</u>	<u>101,061</u>	<u>2,033</u>	<u>-</u>	<u>103,368</u>
Fund Balances:						
Reserved	315,739	-	14,625	-	-	330,364
Unreserved:						
Designated	-	55,677	-	-	-	55,677
Undesignated	-	-	15,526	60,143	13,138	88,807
Total Fund Balances	<u>315,739</u>	<u>55,677</u>	<u>30,151</u>	<u>60,143</u>	<u>13,138</u>	<u>474,848</u>
Total Liabilities and Fund Balances	<u>\$ 316,013</u>	<u>\$ 55,677</u>	<u>\$ 131,212</u>	<u>\$ 62,176</u>	<u>\$ 13,138</u>	<u>\$ 578,216</u>

Debt Service					Capital Projects		Total Nonmajor Governmental Funds
308	309	312	314	315	406		
Tax Increment Bonds of 1993	Tax Increment Bonds of 1996	Tax Increment Bonds of 1988	Tax Increment Bonds of 1999	Improvement Bonds of 2000	Total	Community Center	
\$ -	\$ 25,310	\$ -	\$ 50,612	\$ -	\$ 75,922	\$ -	\$ 354,396
-	-	6,986	-	-	6,986	-	26,934
27,525	5,691	-	32,898	549,525	615,639	-	615,639
-	-	-	-	-	-	-	59,901
-	128	-	256	3,140	3,524	-	8,284
-	-	-	-	-	-	-	200,508
-	-	-	-	-	-	-	14,625
<u>\$ 27,525</u>	<u>\$ 31,129</u>	<u>\$ 6,986</u>	<u>\$ 83,766</u>	<u>\$ 552,665</u>	<u>\$ 702,071</u>	<u>\$ -</u>	<u>\$ 1,280,287</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,783
-	-	-	-	-	-	-	3,665
74	-	75,971	-	158,126	234,171	155,400	451,860
27,246	5,539	6,986	32,552	529,388	601,711	-	612,342
<u>27,320</u>	<u>5,539</u>	<u>82,957</u>	<u>32,552</u>	<u>687,514</u>	<u>835,882</u>	<u>155,400</u>	<u>1,094,650</u>
205	25,590	-	51,214	-	77,009	-	407,373
-	-	-	-	-	-	-	55,677
-	-	(75,971)	-	(134,849)	(210,820)	(155,400)	(277,413)
<u>205</u>	<u>25,590</u>	<u>(75,971)</u>	<u>51,214</u>	<u>(134,849)</u>	<u>(133,811)</u>	<u>(155,400)</u>	<u>185,637</u>
<u>\$ 27,525</u>	<u>\$ 31,129</u>	<u>\$ 6,986</u>	<u>\$ 83,766</u>	<u>\$ 552,665</u>	<u>\$ 702,071</u>	<u>\$ -</u>	<u>\$ 1,280,287</u>

CITY OF FOREST LAKE
Washington County, Minnesota

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005**

Special Revenue

	203	206	207	209	212	248	
	Parkland Dedication	Cable TV	Drug Forfeiture	Fire Department	Economic Development	TIF Association	Total
REVENUES:							
Property Taxes and Tax Increments	\$ -	\$ -	\$ -	\$ 377,985	\$ 46,464	\$ -	\$ 424,449
Special Assessments	-	-	-	-	-	-	-
Intergovernmental	161,571	-	-	64,604	2,902	-	229,077
Charges for Services	33,482	-	-	121,602	-	-	155,084
Miscellaneous:							
Investment Income	21,455	-	1,321	-	578	346	23,700
Other	11,715	-	16,094	15,891	-	-	43,700
Total Revenues	<u>228,223</u>	<u>-</u>	<u>17,415</u>	<u>580,082</u>	<u>49,944</u>	<u>346</u>	<u>876,010</u>
EXPENDITURES:							
Current:							
Public Safety	-	-	3,754	488,130	-	-	491,884
Culture and Recreation	125,910	-	-	-	-	-	125,910
Economic Development	-	-	-	-	7,547	5,103	12,650
Debt Service:							
Principal	-	-	-	14,000	-	-	14,000
Interest and Fiscal Charges	-	-	-	1,282	-	-	1,282
Capital Outlay:							
Public Safety	-	-	-	24,669	-	-	24,669
Culture and Recreation	655,697	-	-	-	-	-	655,697
Total Expenditures	<u>781,607</u>	<u>-</u>	<u>3,754</u>	<u>528,081</u>	<u>7,547</u>	<u>5,103</u>	<u>1,326,092</u>
Excess of Revenues Over (Under) Expenditures	(553,384)	-	13,661	52,001	42,397	(4,757)	(450,082)
OTHER FINANCING SOURCES (USES):							
Sale of Capital Assets	-	-	-	1,327	-	-	1,327
Transfers In	-	-	-	-	5,319	-	5,319
Transfers Out	-	-	(9,200)	(40,000)	-	-	(49,200)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(9,200)</u>	<u>(38,673)</u>	<u>5,319</u>	<u>-</u>	<u>(42,554)</u>
Net Change in Fund Balances	(553,384)	-	4,461	13,328	47,716	(4,757)	(492,636)
FUND BALANCES:							
Beginning of Year, as Previously Reported	<u>869,123</u>	<u>75,678</u>	<u>51,216</u>	<u>16,823</u>	<u>12,427</u>	<u>17,895</u>	<u>1,043,162</u>
Prior Period Adjustment	-	(75,678)	-	-	-	-	(75,678)
Beginning of Year, as Restated	<u>869,123</u>	<u>-</u>	<u>51,216</u>	<u>16,823</u>	<u>12,427</u>	<u>17,895</u>	<u>967,484</u>
End of Year	<u>\$ 315,739</u>	<u>\$ -</u>	<u>\$ 55,677</u>	<u>\$ 30,151</u>	<u>\$ 60,143</u>	<u>\$ 13,138</u>	<u>\$ 474,848</u>

Debt Service					Capital Projects		Total Nonmajor Governmental Funds
308	309	312	314	315		406	
Tax Refunding Bonds of 1993	Tax Improvement Bonds of 1996	Tax Increment Bonds of 1988	Tax Improvement Bonds of 1999	Improvement Bonds of 2000	Total	Community Center	
\$ -	\$ -	\$ 6,794	\$ -	\$ -	\$ 6,794	\$ -	\$ 431,243
38,583	6,256	-	15,686	269,516	330,041	-	330,041
-	-	-	-	-	-	-	229,077
-	-	-	-	-	-	-	155,084
-	477	-	1,497	11,698	13,672	-	37,372
-	-	-	-	-	-	389	44,089
<u>38,583</u>	<u>6,733</u>	<u>6,794</u>	<u>17,183</u>	<u>281,214</u>	<u>350,507</u>	<u>389</u>	<u>1,226,906</u>
-	-	-	-	-	-	-	491,884
-	-	-	-	-	-	-	125,910
-	-	-	-	-	-	-	12,650
40,000	15,000	10,000	40,000	175,000	280,000	-	294,000
3,120	1,515	4,100	3,682	65,030	77,447	-	78,729
-	-	-	-	-	-	-	24,669
-	-	-	-	-	-	13,253	668,950
<u>43,120</u>	<u>16,515</u>	<u>14,100</u>	<u>43,682</u>	<u>240,030</u>	<u>357,447</u>	<u>13,253</u>	<u>1,696,792</u>
(4,537)	(9,782)	(7,306)	(26,499)	41,184	(6,940)	(12,864)	(469,886)
-	-	-	-	-	-	-	1,327
-	-	-	-	-	-	-	5,319
-	-	-	-	(780,000)	(780,000)	-	(829,200)
-	-	-	-	(780,000)	(780,000)	-	(822,554)
(4,537)	(9,782)	(7,306)	(26,499)	(738,816)	(786,940)	(12,864)	(1,292,440)
4,742	35,372	(68,665)	77,713	603,967	653,129	(142,536)	1,553,755
-	-	-	-	-	-	-	(75,678)
<u>4,742</u>	<u>35,372</u>	<u>(68,665)</u>	<u>77,713</u>	<u>603,967</u>	<u>653,129</u>	<u>(142,536)</u>	<u>1,478,077</u>
<u>\$ 205</u>	<u>\$ 25,590</u>	<u>\$ (75,971)</u>	<u>\$ 51,214</u>	<u>\$ (134,849)</u>	<u>\$ (133,811)</u>	<u>\$ (155,400)</u>	<u>\$ 185,637</u>

CITY OF FOREST LAKE
Washington County, Minnesota

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL -
FIRE DEPARTMENT FUND
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original and Final			
REVENUES:				
Property Taxes	\$ 387,767		\$ 377,985	\$ (9,782)
Licenses and Permits	50,000		-	(50,000)
Intergovernmental Revenue	20,000		64,604	44,604
Charges for Services	125,888		121,602	(4,286)
Miscellaneous:				
Other	-		15,891	15,891
Total Revenues	583,655		580,082	(3,573)
EXPENDITURES:				
Current:				
Public Safety	523,156		488,130	35,026
Debt Service:				
Bond Principal	14,000		14,000	-
Bond Interest and Fiscal Charges	945		1,282	(337)
Capital Outlay	8,800		24,669	(15,869)
Total Expenditures	546,901		528,081	18,820
Excess of Revenues Under Expenditures	36,754		52,001	15,247
OTHER FINANCING SOURCES:				
Issuance of Bonds	-		-	-
Sale of Capital Assets	-		1,327	1,327
Transfers Out	(40,000)		(40,000)	-
Total Other Financing Sources	(40,000)		(38,673)	1,327
Net Change in Fund Balances	\$ (3,246)		13,328	\$ 16,574
FUND BALANCES:				
Beginning of Year, as Previously Reported			16,823	
End of Year			\$ 30,151	

The Notes to the Financial Statements are an integral part of this statement.

CITY OF FOREST LAKE
Washington County, Minnesota

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL -
ECONOMIC DEVELOPMENT FUND
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original and Final			
REVENUES:				
Property Taxes	\$ 46,000		\$ 46,464	\$ 464
Intergovernmental Revenue	4,000		2,902	(1,098)
Miscellaneous:				
Investment Income	-		578	578
Other	-		-	-
Total Revenues	50,000		49,944	(56)
EXPENDITURES:				
Current:				
Economic Development	38,865		7,547	31,318
Total Expenditures	38,865		7,547	31,318
Excess of Revenues Under Expenditures	11,135		42,397	31,262
OTHER FINANCING SOURCES:				
Transfers In	-		5,319	5,319
Total Other Financing Sources	-		5,319	5,319
Net Change in Fund Balances	\$ 11,135		47,716	\$ 36,581
FUND BALANCES:				
Beginning of Year, as Previously Reported			12,427	
End of Year			\$ 60,143	

CITY OF FOREST LAKE
Washington County, Minnesota

**STATEMENT OF CHANGES IN AGENCY ASSETS AND
LIABILITIES - AGENCY FUND
For the Year Ended December 31, 2005**

	<u>Balance 12/31/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/05</u>
ASSETS				
Cash and Investments	\$ -	\$ 50,067	\$ -	\$ 50,067
Accounts Receivable	-	27,413	-	27,413
Interest Receivable	-	253	-	253
Total Assets	<u>\$ -</u>	<u>\$ 77,733</u>	<u>\$ -</u>	<u>\$ 77,733</u>
LIABILITIES				
Accounts Payable	<u>\$ -</u>	<u>\$ 77,733</u>	<u>\$ -</u>	<u>\$ 77,733</u>