



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

May 9, 2007

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

Dear Kathleen:

Transmitted herewith are 2 copies of the Comfort Lake - Forest Lake Watershed District's Annual Financial Report including the Independent Auditor's Report on Compliance and the Audit Management Letter for the year ended December 31, 2006.

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

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

Sincerely,

HLB TAUTGES REDPATH, LTD.

Debra A. Jezierski, CPA

DAJ/bmj

Enclosures



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

May 9, 2007

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

Dear Mr. Haik:

Transmitted herewith are 14 copies of the Comfort Lake - Forest Lake Watershed District's Annual Financial Report including the Independent Auditor's Report on Compliance and the Audit Management Letter for the year ended December 31, 2006.

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

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

Sincerely,

HLB TAUTGES REDPATH, LTD.

Debra A. Jezierski, CPA

DAJ/bmj

Enclosures

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

December 31, 2006

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COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
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COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
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INTRODUCTORY SECTION

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COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

ORGANIZATION

December 31, 2006



<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
District Officers:		
Appointed:		
Board of Managers:		
John T. Lynch	President	September 23, 2008
John W. Spence	Vice-President	September 23, 2008
Ms. Jackie A. Anderson	Treasurer	September 23, 2009
Richard P. Damchik	Secretary	September 23, 2009
Dennis G. Larson	Manager	September 23, 2008

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FINANCIAL SECTION

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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2006 which collectively comprise the Comfort Lake-Forest Lake Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Comfort Lake-Forest Lake Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Comfort Lake-Forest Lake Watershed District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Comfort Lake-Forest Lake Watershed District as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information on pages 28 through 29, is not a required part of the basic financial statements but is supplementary

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information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 7, 2007

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BASIC FINANCIAL STATEMENTS

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

STATEMENT OF NET ASSETS

December 31, 2006

Statement 1

	Primary Government	
	<u>2006</u>	<u>2005</u>
Assets:		
Cash and investments	\$286,385	\$182,620
Property taxes receivable:		
Delinquent	7,114	7,086
Due from county	5,327	4,970
Capital assets - net:		
Nondepreciable	9,437	9,437
Total assets	<u>308,263</u>	<u>204,113</u>
Liabilities:		
Accounts payable	<u>32,525</u>	<u>42,887</u>
Net assets:		
Invested in capital assets, net of related debt	9,437	9,437
Unrestricted	266,301	151,789
Total net assets	<u>\$275,738</u>	<u>\$161,226</u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2006

Statement 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>2006</u>	<u>2005</u>
Governmental activities:						
General government	\$90,556	\$ -	\$ -	\$ -	(\$90,556)	(\$80,355)
Projects	108,956	-	-	-	(108,956)	(163,156)
Total governmental activities	<u>\$199,512</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(199,512)</u>	<u>(243,511)</u>
General revenues:						
Property taxes					290,285	241,790
Grants and contributions not restricted to specific programs					16,667	16,128
Unrestricted investment earnings					7,015	2,296
Other					57	-
Total general revenues					<u>314,024</u>	<u>260,214</u>
Change in net assets					114,512	16,703
Net assets - beginning					<u>161,226</u>	<u>144,523</u>
Net assets - ending					<u>\$275,738</u>	<u>\$161,226</u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

BALANCE SHEET
 GOVERNMENTAL FUNDS
 December 31, 2006

Statement 3

	General Fund	Survey and Data Acquisition Fund	Total Governmental Funds	
			2006	2005
Assets				
Cash and investments	\$284,426	\$1,959	\$286,385	\$182,620
Property taxes receivable:				
Delinquent	6,368	746	7,114	7,086
Due from county	4,461	866	5,327	4,970
Total assets	<u>\$295,255</u>	<u>\$3,571</u>	<u>\$298,826</u>	<u>\$194,676</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$32,525	\$ -	\$32,525	\$42,887
Deferred revenue	6,368	746	7,114	7,086
Total liabilities	<u>38,893</u>	<u>746</u>	<u>39,639</u>	<u>49,973</u>
Fund balance:				
Undesignated reported in:				
General Fund	256,362	-	256,362	141,837
Special Revenue Funds	-	2,825	2,825	2,866
Total fund balance	<u>256,362</u>	<u>2,825</u>	<u>259,187</u>	<u>144,703</u>
Total liabilities and fund balance	<u>\$295,255</u>	<u>\$3,571</u>	<u>\$298,826</u>	<u>\$194,676</u>
Fund balance reported above			\$259,187	\$144,703
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.			9,437	9,437
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			<u>7,114</u>	<u>7,086</u>
Net assets of governmental activities			<u>\$275,738</u>	<u>\$161,226</u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2006

Statement 4

	<u>General Fund</u>	<u>Survey and Data Acquisition Fund</u>	<u>Total Governmental Funds</u>	
			<u>2006</u>	<u>2005</u>
Revenues:				
General property taxes	\$242,968	\$47,289	\$290,257	\$240,464
Intergovernmental	13,997	2,670	16,667	16,128
Investment income	7,015	-	7,015	2,296
Other	57	-	57	-
Total revenues	<u>264,037</u>	<u>49,959</u>	<u>313,996</u>	<u>258,888</u>
Expenditures:				
Current:				
General government	90,556	-	90,556	80,355
Projects	<u>58,956</u>	<u>50,000</u>	<u>108,956</u>	<u>163,156</u>
Total expenditures	<u>149,512</u>	<u>50,000</u>	<u>199,512</u>	<u>243,511</u>
Revenues over (under) expenditures	114,525	(41)	114,484	15,377
Fund balance - January 1	<u>141,837</u>	<u>2,866</u>	<u>144,703</u>	<u>129,326</u>
Fund balance - December 31	<u><u>\$256,362</u></u>	<u><u>\$2,825</u></u>	<u><u>\$259,187</u></u>	<u><u>\$144,703</u></u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2006

Statement 5

	<u>2006</u>	<u>2005</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Net changes in fund balances - total governmental funds (Statement 4)	\$114,484	\$15,377
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
General property taxes deferred revenues	<u>28</u>	<u>1,326</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$114,512</u></u>	<u><u>\$16,703</u></u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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

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

D. BUDGETS AND BUDGETARY ACCOUNTING

The Board of Managers adopts a budget for the general government operations of the District on an annual basis. During the budget year, supplemental appropriations and deletions are or may be authorized by the Board. The modified accrual basis of accounting is used by the District for budgeting data. All appropriations end with the fiscal year for which they were made.

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

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

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

E. CASH AND INVESTMENTS

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

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

F. PROPERTY TAX REVENUE RECOGNITION

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

G. INVENTORIES

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

H. MARKET VALUE HOMESTEAD CREDIT

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

I. USE OF ESTIMATES

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

J. CAPITAL ASSETS

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

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

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

The District did not acquire any infrastructure assets during 2006.

K. LONG-TERM OBLIGATIONS

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

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

L. FUND EQUITY

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

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

At year end the carrying amount of the District's deposits was \$286,385 and the bank balance was \$299,029. Of these deposits, \$75,829 was uncollateralized.

B. INVESTMENTS

Minnesota Statutes authorize the District to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) Obligations of the State of Minnesota or any of its municipalities as follows:
 - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
 - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
 - 3) a general obligation of the Minnesota housing finance agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptance of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2006

- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

The District did not invest in any of the above listed investments during 2006.

Credit Risk. The District follows State Statutes in regards to credit risk of investments. The District does not have an investment policy which further limits its investment choices.

Interest Rate Risk. The District does not have an investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. The District does not have an investment policy which addresses the concentration of credit risk.

Note 3 RECEIVABLES AND DEFERRED REVENUE

There are no significant receivables balances not expected to be collected within one year of December 31, 2006.

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$6,368	\$ -
Delinquent property taxes receivable (Survey and Data Acquisition Fund)	746	-
Total	<u>\$7,114</u>	<u>\$0</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2006

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

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

Note 5 CONTINGENCIES

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

Note 6 RISK MANAGEMENT

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Statement 6

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For The Year Ended December 31, 2006

With Comparative Actual Amounts For The Year Ended December 31, 2005

	2006			Variance with Final Budget	2005
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Revenues:					
Property taxes	\$242,503	\$242,503	\$242,968	\$465	\$240,464
Intergovernmental	13,997	13,997	13,997	-	16,128
Investment income	-	-	7,015	7,015	2,296
Other	-	-	57	57	-
Total revenues	<u>256,500</u>	<u>256,500</u>	<u>264,037</u>	<u>7,537</u>	<u>258,888</u>
Expenditures:					
Current:					
Manager per diem and administrative	6,000	6,000	4,527	1,473	3,701
Dues and subscriptions	-	-	2,000	(2,000)	2,000
Office expense	-	-	465	(465)	421
Insurance	8,500	8,500	5,976	2,524	5,970
Accounting and auditing	8,300	8,300	8,450	(150)	8,119
Legal and administrative services	80,500	80,500	69,138	11,362	60,144
General engineering services	121,002	121,002	32,508	88,494	45,397
Projects	78,998	78,998	26,448	52,550	117,759
Total expenditures	<u>303,300</u>	<u>303,300</u>	<u>149,512</u>	<u>153,788</u>	<u>243,511</u>
Revenue over (under) expenditures	<u>(\$46,800)</u>	<u>(\$46,800)</u>	114,525	<u>\$161,325</u>	15,377
Fund balance - January 1			<u>141,837</u>		<u>126,460</u>
Fund balance - December 31			<u>\$256,362</u>		<u>\$141,837</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2006

Note A LEGAL COMPLIANCE – BUDGETS

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

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INDIVIDUAL FUND STATEMENTS

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

GENERAL FUND

BALANCE SHEET

December 31, 2006

With Comparative Amounts For December 31, 2005

Statement 7

	<u>2006</u>	<u>2005</u>
Assets		
Cash and investments	\$284,426	\$179,754
Property taxes receivable:		
Delinquent	6,368	7,086
Due from county	4,461	4,970
Total assets	<u>\$295,255</u>	<u>\$191,810</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$32,525	\$42,887
Deferred revenue	6,368	7,086
Total liabilities	<u>38,893</u>	<u>49,973</u>
Fund balance:		
Unreserved:		
Undesignated	<u>256,362</u>	<u>141,837</u>
Total liabilities and fund balance	<u>\$295,255</u>	<u>\$191,810</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**GENERAL FUND****Statement 8****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

For The Year Ended December 31, 2006

With Comparative Amounts For The Year Ended December 31, 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Property taxes	\$242,968	\$240,464
Intergovernmental	13,997	16,128
Investment income	7,015	2,296
Other	57	-
Total revenues	<u>264,037</u>	<u>258,888</u>
Expenditures:		
Current:		
Manager per diem and administrative	4,527	3,701
Dues and subscriptions	2,000	2,000
Office expense	465	421
Insurance	5,976	5,970
Accounting and auditing	8,450	8,119
Legal and administrative services	69,138	60,144
General engineering services	32,508	45,397
Projects	26,448	117,759
Total expenditures	<u>149,512</u>	<u>243,511</u>
Revenue over expenditures	114,525	15,377
Fund balance - January 1	<u>141,837</u>	<u>126,460</u>
Fund balance - December 31	<u><u>\$256,362</u></u>	<u><u>\$141,837</u></u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
SURVEY AND DATA ACQUISITION FUND
BALANCE SHEET
 December 31, 2006
 With Comparative Amounts For December 31, 2005

Statement 9

	<u>2006</u>	<u>2005</u>
Assets		
Cash and investments	\$1,959	\$2,866
Property taxes receivable:		
Delinquent	746	-
Due from county	866	-
Total assets	<u><u>\$3,571</u></u>	<u><u>\$2,866</u></u>
 Liabilities and Fund Balance		
Liabilities		
Deferred revenue	746	-
Total liabilities	<u><u>746</u></u>	<u><u>0</u></u>
 Fund balance:		
Unreserved:		
Undesignated	<u>2,825</u>	<u>2,866</u>
Total liabilities and fund balance	<u><u>\$3,571</u></u>	<u><u>\$2,866</u></u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
SURVEY AND DATA ACQUISITION FUND
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
For The Year Ended December 31, 2006
With Comparative Amounts For The Year Ended December 31, 2005

Statement 10

	<u>2006</u>	<u>2005</u>
Revenue	<u>\$49,959</u>	<u>\$ -</u>
Expenditures:		
Current:		
Projects	<u>50,000</u>	<u>-</u>
Revenue over expenditures	(41)	0
Fund balance - January 1	<u>2,866</u>	<u>2,866</u>
Fund balance - December 31	<u><u>\$2,825</u></u>	<u><u>\$2,866</u></u>

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SUPPLEMENTARY INFORMATION

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
MARKET VALUES BY WATERSHED

For Taxes Payable in 2006

Watershed	Taxable Market Value			Referendum Market Value
	Real	Personal	Total	
10 Carnelian Marine	\$691,201,900	\$1,959,300	\$693,161,200	\$631,721,200
14 South Washington	8,041,819,800	53,703,600	8,095,523,400	8,014,645,200
34 Ramsey-Washington Metro	2,508,984,100	1,708,100	2,510,692,200	2,499,726,151
38 Rice Creek	2,927,606,500	19,827,800	2,947,434,300	2,879,932,275
54 Valley Branch	3,291,151,300	28,184,600	3,319,335,900	3,243,806,100
69 Brown's Creek	1,479,857,700	4,459,600	1,484,317,300	1,447,809,950
71 Comfort Lake-Forest Lake	1,377,497,300	11,378,800	1,388,876,100	1,353,467,125
County Total	<u>\$20,318,118,600</u>	<u>\$121,221,800</u>	<u>\$20,439,340,400</u>	<u>\$20,071,108,001</u>

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

For Taxes Payable in 2005

Watershed	Taxable Market Value			Referendum Market Value
	Real	Personal	Total	
10 Carnelian Marine	\$604,582,300	\$2,474,000	\$607,056,300	\$553,089,850
14 South Washington	6,982,192,700	51,706,900	7,033,899,600	6,968,360,900
34 Ramsey-Washington Metro	2,298,028,900	1,633,200	2,299,662,100	2,287,932,400
38 Rice Creek	2,548,003,300	19,973,500	2,567,976,800	2,511,368,850
54 Valley Branch	2,937,565,500	28,125,200	2,965,690,700	2,902,490,600
69 Brown's Creek	1,304,155,600	4,727,700	1,308,883,300	1,279,179,100
71 Comfort Lake-Forest Lake	1,217,066,000	11,083,900	1,228,149,900	1,197,852,800
County Total	<u>\$17,891,594,300</u>	<u>\$119,724,400</u>	<u>\$18,011,318,700</u>	<u>\$17,700,274,500</u>

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

Tax Capacity			Deductions			Taxable For LTR	Final FD Distribution	Taxable Value
Real	Personal	Total	Powerline	TIF	FD Contribution			
\$7,050,337	\$24,511	\$7,074,848	\$ -	\$ -	\$44,487	\$7,030,361	\$251,084	\$7,281,445
87,954,151	1,070,401	89,024,552	-	1,659,635	5,299,767	82,065,150	7,895,333	89,960,483
30,361,752	34,162	30,395,914	-	1,011,015	3,690,069	25,694,830	2,798,893	28,493,723
31,166,983	393,638	31,560,621	2,427	836,650	1,095,375	29,626,169	1,963,437	31,589,606
35,480,354	512,169	35,992,523	1,631	346,119	1,691,225	33,953,548	2,439,920	36,393,468
16,508,584	91,932	16,600,516	3,168	1,156,338	1,131,294	14,309,716	928,916	15,238,632
15,375,229	226,826	15,602,055	2,709	782,466	1,257,896	13,558,984	1,133,829	14,692,813
<u>\$223,897,390</u>	<u>\$2,353,639</u>	<u>\$226,251,029</u>	<u>\$9,935</u>	<u>\$5,792,223</u>	<u>\$14,210,113</u>	<u>\$206,238,758</u>	<u>\$17,411,412</u>	<u>\$223,650,170</u>

Tax Capacity			Deductions			Taxable For LTR	Final FD Distribution	Taxable Value
Real	Personal	Total	Powerline	TIF	FD Contribution			
\$6,094,848	\$30,943	\$6,125,791	\$ -	\$ -	\$25,846	\$6,099,945	\$219,060	\$6,319,005
76,866,300	1,032,773	77,899,073	-	1,590,818	4,721,321	71,586,934	7,452,941	79,039,875
28,228,126	32,664	28,260,790	-	1,086,240	3,468,738	23,705,812	2,672,515	26,378,327
27,192,444	396,726	27,589,170	2,414	832,975	945,549	25,808,232	1,746,754	27,554,986
31,761,259	510,398	32,271,657	1,645	440,843	1,623,751	30,205,418	2,307,450	32,512,868
14,655,009	92,807	14,747,816	3,193	1,166,802	1,011,950	12,565,871	838,291	13,404,162
13,739,861	220,928	13,960,789	2,702	685,135	1,088,203	12,184,749	1,011,172	13,195,921
<u>\$198,537,847</u>	<u>\$2,317,239</u>	<u>\$200,855,086</u>	<u>\$9,954</u>	<u>\$5,802,813</u>	<u>\$12,885,358</u>	<u>\$182,156,961</u>	<u>\$16,248,183</u>	<u>\$198,405,144</u>

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OTHER REPORTS

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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

COMMUNICATION OF SIGNIFICANT DEFICIENCIES THAT
INDICATES NO MATERIAL WEAKNESSES OF INTERNAL CONTROL

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

In planning and performing our audit of the financial statements of Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Comfort Lake-Forest Lake Watershed District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Comfort Lake-Forest Lake Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of Comfort Lake-Forest Lake Watershed District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying schedule as items 2006-1 and 2006-2.

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

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 7, 2007

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Finding: 2006-1 Oversight of Financial Statement Preparation

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

Condition: During this year of audit, Statement on Auditing Standards (SAS) No. 112 became effective. Basically, the main intent of SAS 112 is to have auditors report in writing more findings involving internal control. SAS 112 specifies that an organization may not rely exclusively on its auditors to perform the financial statement process. In our viewpoint, SAS 112 will result in many, if not most, small to mid-size organizations receiving a finding regarding financial statement preparation.

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

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

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

Recommendation: We recommend the District review this matter and determine a course of action. Any change would need to be viewed from a cost/benefit perspective. Options for the District include:

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

3. Hiring additional internal or 3rd party resources to assist with the financial statement process.

Management Response: The District is aware of SAS 112, but a cost/benefit analysis of the issue does not support the allocation of additional employees or resources at this time. Certain other safeguards are successfully maintained (Board oversight, treasurer review of the draft financial statements) which provide satisfactory mitigation of the issue.

Finding: 2006-2 Inadequate Documentation of the Components of Internal Control

Criteria: SAS 112 specified that inadequate documentation of the components of internal control is considered a significant deficiency in the design of internal controls.

Condition: The District has implied policies that deal with disbursements, payroll, receipts and capital assets. However, these policies are not in writing and therefore, under the definition of SAS 112, a finding exists.

Cause: There may be an assumption that because the District's accounting system is not complex, there is no need for internal control/accounting manual.

Effect: An implied or verbal policy is subject to greater variation of its meaning and the likelihood of misinterpretation increases when a policy is not written.

Recommendation: We recommend the District establish a written internal control manual. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.

Management Response: The District will look into documenting internal controls during the current year.

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Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

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

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

We have audited the financial statements of the Comfort Lake-Forest Lake Watershed District, as of and for the year ended December 31, 2006 and have issued our report thereon dated May 7, 2007.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our study included all of the listed categories except miscellaneous provisions and tax increment financing because these are not applicable to the Comfort Lake-Forest Lake Watershed District.

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

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

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 7, 2007

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Finding: Deficiencies in collateral for deposits.

Condition: At December 31, 2006, the District held cash in savings at Mainstreet Bank totaling \$281,548. Deposits up to \$100,000 are insured by the FDIC. Deposits require collateral of at least ten percent more than the amount on deposit in excess of that covered by FDIC insurance. The collateral required was \$199,702 (\$181,548 x 110%). Collateral was provided in the amount of \$123,873, resulting in a collateral deficiency of \$75,829.

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

118A.03 When and What Collateral Required.

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

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

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

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

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

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

Subd. 6. **Default.** For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits

Report on Compliance With Minnesota Legal Compliance
Audit Guide for Local Government
Comfort Lake-Forest Lake Watershed District
Page 3

shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

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

HIST: 1996 c 399 art 1 s 4

Recommendation: We recommend that the District monitor amounts on deposit with the depository to insure that amounts on deposit do not exceed FDIC insurance limits or that sufficient collateral is pledged in cases where deposits exceed FDIC insurance limits.



Certified Public Accountants and Consultants

AUDIT MANAGEMENT LETTER

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

REQUIRED COMMUNICATIONS

We have audited the financial statements of the Comfort Lake-Forest Lake Watershed District for the year ended December 31, 2006, and have issued our report thereon dated May 7, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 16, 2006 our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Comfort Lake-Forest Lake Watershed District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Comfort Lake-Forest Lake Watershed District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the Comfort Lake-Forest Lake Watershed District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

REQUIRED COMMUNICATIONS

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. For Comfort Lake-Forest Lake Watershed District, accounting estimates include fair value of investments.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Comfort Lake-Forest Lake Watershed District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Comfort Lake-Forest Lake Watershed District, either individually or in the aggregate, indicate matters that could have a significant effect on the Comfort Lake-Forest Lake Watershed District's financial reporting process.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

To the Honorable Managers
Comfort Lake-Forest Lake Watershed District
May 7, 2007
Page 3

REQUIRED COMMUNICATIONS

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

Closing

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

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 7, 2007