



Certified Public Accountants and Consultants

April 25, 2008

Mr. Randy Anhorn
Comfort Lake - Forest Lake Watershed District
220 North Lake Street
Forest Lake, MN 55025

Dear Mr. Anhorn:

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 Communication with Those Charged with Governance Letter for the year ended December 31, 2007.

Additional copies of the Annual Financial Report have been sent to 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.

A handwritten signature in black ink that reads "Debra A. Jezierski". The signature is written in a cursive style.

Debra A. Jezierski, CPA

DAJ/nal

Enclosures



Certified Public Accountants and Consultants

April 25, 2008

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 Communication with Those Charged with Governance Letter for the year ended December 31, 2007.

Additional copies have been sent to the Board of Water and Soil Resources and to the Director of the Division of Waters at the Department of Natural Resources to fulfill the reporting requirements of the District.

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

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Debra A. Jezierski, CPA

DAJ/nal

Enclosures



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

April 25, 2008

Minnesota Board of Water and Soil Resources
520 Lafayette Road North
St. Paul, MN 55155

Enclosed is a copy of the 2007 Annual Financial Report for the Comfort Lake-Forest Lake Watershed District. The Report on Compliance With Minnesota Legal Compliance Audit Guide for Local Governments is included in the Annual Financial Report.

If you have any questions, please call the undersigned.

Sincerely,

HLB TAUTGES REDPATH, LTD.

A handwritten signature in black ink that reads "Debra Jezierski".

Debra A. Jezierski, CPA

DAJ/nal

Enclosures

cc: Comfort Lake-Forest Lake Watershed District



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

April 25, 2008

Director of the Division of Waters
Department of Natural Resources
500 Lafayette Road
St. Paul, MN 55155

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If you have any questions, please call the undersigned.

Sincerely,

HLB TAUTGES REDPATH, LTD.

Debra A. Jezierski, CPA

DAJ/nal

Enclosures

cc: Comfort Lake-Forest Lake Watershed District

**COMFORT LAKE-FOREST LAKE
WATERSHED DISTRICT**

ANNUAL FINANCIAL REPORT

December 31, 2007

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COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
TABLE OF CONTENTS

	Reference	Page No.
INTRODUCTORY SECTION		
Organization		3
FINANCIAL SECTION		
Independent Auditor's Report		7
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets	Statement 1	12
Statement of Activities	Statement 2	13
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	Statement 4	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	Statement 5	16
Notes to Financial Statements		17
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	Statement 6	28
Budgetary Comparison Schedule - Note to RSI		29
Individual Fund Statements:		
General Fund:		
Balance Sheet	Statement 7	32
Statement of Revenues, Expenditures and Changes in Fund Balance	Statement 8	33
Survey and Data Acquisition Fund:		
Balance Sheet	Statement 9	34
Statement of Revenue, Expenditures and Changes in Fund Balance	Statement 10	35
OTHER REPORTS		
Communication of Significant Deficiencies that Indicates No Material Weaknesses in Internal Control		39
Report on Compliance with Minnesota Legal Compliance Audit Guide for Local Government		45

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INTRODUCTORY SECTION

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COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

ORGANIZATION

December 31, 2007



<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
District Officers:		
Appointed:		
Board of Managers:		
Jackie A. Anderson	President	September 23, 2009
Richard P. Damchik	Vice-President	September 23, 2010
John W. Spence	Treasurer	September 23, 2008
John T. Lynch	Secretary	September 23, 2008
Wayne S. Moe	Manager	September 23, 2009

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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 Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2007 which collectively comprise Comfort Lake-Forest Lake Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Comfort Lake-Forest Lake Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Comfort Lake-Forest Lake Watershed District as of December 31, 2007, 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. However, Comfort Lake-Forest Lake Watershed District has presented the budgetary comparison information on pages 28 and 29, which is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required

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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 Comfort Lake-Forest Lake Watershed District's basic financial statements. The introductory section and individual fund statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund statements 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

April 25, 2008

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BASIC FINANCIAL STATEMENTS

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT**STATEMENT OF NET ASSETS**

December 31, 2007

Statement 1

	Governmental Activities	
	2007	2006
Assets:		
Cash and investments	\$149,526	\$286,385
Prepaid expenses	2,653	-
Property taxes receivable:		
Delinquent	9,175	7,114
Due from county	4,378	5,327
Capital assets - net:		
Nondepreciable	9,437	9,437
Total assets	<u>175,169</u>	<u>308,263</u>
Liabilities:		
Accounts payable	37,326	32,525
Compensated absences payable:		
Due within one year	3,978	-
Total liabilities	<u>41,304</u>	<u>32,525</u>
Net assets:		
Invested in capital assets, net of related debt	9,437	9,437
Unrestricted	124,428	266,301
Total net assets	<u>\$133,865</u>	<u>\$275,738</u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

Statement 2

For The Year Ended December 31, 2007

<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>Governmental Activities</u>	<u>Governmental Activities</u>
					2007	2006
Governmental activities:						
General government	\$152,821	\$ -	\$ -	\$ -	(\$152,821)	(\$90,556)
Projects	251,774	-	-	-	(251,774)	(108,956)
Total governmental activities	<u>\$404,595</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(404,595)</u>	<u>(199,512)</u>
General revenues:						
Property taxes					247,216	290,285
Grants and contributions not restricted to specific programs					10,263	16,667
Unrestricted investment earnings					5,243	7,015
Other					-	57
Total general revenues					<u>262,722</u>	<u>314,024</u>
Change in net assets					(141,873)	114,512
Net assets - January 1					<u>275,738</u>	<u>161,226</u>
Net assets - December 31					<u>\$133,865</u>	<u>\$275,738</u>

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007

Statement 3

	Survey and Data Acquisition		Total Governmental Funds	
	General Fund	Fund	2007	2006
Assets				
Cash and investments	\$146,287	\$3,239	\$149,526	\$286,385
Property taxes receivable:				
Delinquent	8,841	334	9,175	7,114
Due from county	4,378	-	4,378	5,327
Prepaid items	2,653	-	2,653	-
Total assets	<u>\$162,159</u>	<u>\$3,573</u>	<u>\$165,732</u>	<u>\$298,826</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$37,326	\$ -	\$37,326	\$32,525
Deferred revenue	8,841	334	9,175	7,114
Total liabilities	<u>46,167</u>	<u>334</u>	<u>46,501</u>	<u>39,639</u>
Fund balance:				
Undesignated reported in:				
General Fund	115,992	-	115,992	256,362
Special Revenue Funds	-	3,239	3,239	2,825
Total fund balance	<u>115,992</u>	<u>3,239</u>	<u>119,231</u>	<u>259,187</u>
Total liabilities and fund balance	<u>\$162,159</u>	<u>\$3,573</u>	<u>\$165,732</u>	<u>\$298,826</u>
Fund balance reported above			\$119,231	\$259,187
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.			9,175	7,114
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds - compensated absences			<u>(3,978)</u>	<u>-</u>
Net assets of governmental activities			<u>\$133,865</u>	<u>\$275,738</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, 2007

Statement 4

	<u>General Fund</u>	<u>Survey and Data Acquisition Fund</u>	<u>Total Governmental Funds</u>	
			<u>2007</u>	<u>2006</u>
Revenues:				
General property taxes	\$244,741	\$414	\$245,155	290,257
Intergovernmental	10,263	-	10,263	16,667
Investment income	5,243	-	5,243	7,015
Other	-	-	-	57
Total revenues	<u>260,247</u>	<u>414</u>	<u>260,661</u>	<u>313,996</u>
Expenditures:				
Current:				
General government	148,843	-	148,843	90,556
Projects	<u>251,774</u>	<u>-</u>	<u>251,774</u>	<u>108,956</u>
Total expenditures	<u>400,617</u>	<u>0</u>	<u>400,617</u>	<u>199,512</u>
Revenues over (under) expenditures	(140,370)	414	(139,956)	114,484
Fund balance - January 1	<u>256,362</u>	<u>2,825</u>	<u>259,187</u>	<u>144,703</u>
Fund balance - December 31	<u><u>\$115,992</u></u>	<u><u>\$3,239</u></u>	<u><u>\$119,231</u></u>	<u><u>\$259,187</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, 2007

Statement 5

	<u>2007</u>	<u>2006</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)	(\$139,956)	\$114,484
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	2,061	28
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(3,978)</u>	<u>-</u>
Change in net assets of governmental activities (Statement 2)	<u><u>(\$141,873)</u></u>	<u><u>\$114,512</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, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

D. BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

E. CASH AND INVESTMENTS

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

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

F. PROPERTY TAX REVENUE RECOGNITION

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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.

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.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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 2007.

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.

M. PREPAID ITEMS

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

N. INTERFUND TRANSACTIONS

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

O. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between *net changes in fund balance – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$2,061 difference are as follows:

General property taxes deferred revenue:	
At December 31, 2006	(\$7,114)
At December 31, 2007	<u>9,175</u>
Net adjustments to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u><u>\$2,061</u></u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$3,978) difference are as follows:

Compensated Absences payable:	
At December 31, 2006	\$ -
At December 31, 2007	<u>(3,978)</u>
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>(\$3,978)</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

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

At year end the carrying amount of the District's deposits was \$149,526 and the bank balance was \$153,712. The entire bank balance was covered by federal depository insurance or collateral held by the District's agent in the District's name.

B. INVESTMENTS

Minnesota Statutes authorize the District to invest in the following:

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

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2007

- d) Bankers acceptances of United States banks.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

The District did not invest in any of the above listed investments during 2007.

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, 2007.

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)	\$8,841	\$ -
Delinquent property taxes receivable (Survey and Data Acquisition Fund)	334	-
Total	<u>\$9,175</u>	<u>\$0</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 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	<u>\$9,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$9,437</u>

Note 5 LONG-TERM DEBT

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2007, was as follow:

	<u>Balance 12/31/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2007</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences payable	<u>\$ -</u>	<u>\$7,956</u>	<u>(\$3,978)</u>	<u>\$3,978</u>	<u>\$3,978</u>

Compensated absences payable are generally liquidated by the general fund.

Note 6 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 7 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
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Statement 6

For The Year Ended December 31, 2007

With Comparative Actual Amounts For The Year Ended December 31, 2006

	2007			Variance with Final Budget	2006
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Revenues:					
General property taxes	\$247,237	\$247,237	\$244,741	(\$2,496)	\$242,968
Intergovernmental	10,263	10,263	10,263	-	13,997
Investment income	-	-	5,243	5,243	7,015
Other	-	-	-	-	57
Total revenues	<u>257,500</u>	<u>257,500</u>	<u>260,247</u>	<u>2,747</u>	<u>264,037</u>
Expenditures:					
Current:					
Manager per diem and administrative	111,900	111,900	107,650	4,250	4,527
Dues and subscriptions	2,000	2,000	2,000	-	2,000
Office expense	12,000	12,000	10,051	1,949	465
Equipment	-	-	4,000	(4,000)	-
Insurance	9,000	9,000	4,045	4,955	5,976
Accounting and auditing	8,300	8,300	9,380	(1,080)	8,450
Legal and administrative services	18,000	18,000	11,717	6,283	69,138
General engineering services	91,700	91,700	219,186	(127,486)	32,508
Projects	4,600	4,600	32,588	(27,988)	26,448
Total expenditures	<u>257,500</u>	<u>257,500</u>	<u>400,617</u>	<u>(143,117)</u>	<u>149,512</u>
Revenues over (under) expenditures	<u>\$0</u>	<u>\$0</u>	(140,370)	<u>(\$140,370)</u>	114,525
Fund balance - January 1			<u>256,362</u>		<u>141,837</u>
Fund balance - December 31			<u>\$115,992</u>		<u>\$256,362</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2007

Note A BUDGETS

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

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INDIVIDUAL FUND STATEMENTS

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT

BALANCE SHEET

GENERAL FUND

December 31, 2007

With Comparative Amounts For December 31, 2006

Statement 7

	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$146,287	\$284,426
Property taxes receivable:		
Delinquent	8,841	6,368
Due from county	4,378	4,461
Prepaid items	2,653	-
Total assets	<u>\$162,159</u>	<u>\$295,255</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$37,326	\$32,525
Deferred revenue	8,841	6,368
Total liabilities	<u>46,167</u>	<u>38,893</u>
Fund balance:		
Unreserved:		
Undesignated	<u>115,992</u>	<u>256,362</u>
Total liabilities and fund balance	<u>\$162,159</u>	<u>\$295,255</u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2007
With Comparative Amounts For The Year Ended December 31, 2006

Statement 8

	<u>2007</u>	<u>2006</u>
Revenues:		
Property taxes	\$244,741	\$242,968
Intergovernmental	10,263	13,997
Investment income	5,243	7,015
Other	-	57
Total revenues	<u>260,247</u>	<u>264,037</u>
Expenditures:		
Current:		
Manager per diem and administrative	107,650	4,527
Dues and subscriptions	2,000	2,000
Office expense	10,051	465
Insurance	4,045	5,976
Accounting and auditing	9,380	8,450
Legal and administrative services	11,717	69,138
General engineering services	219,186	32,508
Projects	32,588	26,448
Equipment	4,000	-
Total expenditures	<u>400,617</u>	<u>149,512</u>
Revenue over (under) expenditures	(140,370)	114,525
Fund balance - January 1	<u>256,362</u>	<u>141,837</u>
Fund balance - December 31	<u><u>\$115,992</u></u>	<u><u>\$256,362</u></u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
BALANCE SHEET
SURVEY AND DATA ACQUISITION FUND
 December 31, 2007
 With Comparative Amounts For December 31, 2006

Statement 9

	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$3,239	\$1,959
Property taxes receivable:		
Delinquent	334	746
Due from county	-	866
Total assets	<u><u>\$3,573</u></u>	<u><u>\$3,571</u></u>
Liabilities and Fund Balance		
Liabilities:		
Deferred revenue	<u>\$334</u>	<u>\$746</u>
Fund balance:		
Unreserved:		
Undesignated	<u>3,239</u>	<u>2,825</u>
Total liabilities and fund balance	<u><u>\$3,573</u></u>	<u><u>\$3,571</u></u>

COMFORT LAKE-FOREST LAKE WATERSHED DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
SURVEY AND DATA ACQUISITION FUND
For The Year Ended December 31, 2007
With Comparative Amounts For The Year Ended December 31, 2006

Statement 10

	<u>2007</u>	<u>2006</u>
Revenue	<u>\$414</u>	<u>\$49,959</u>
Expenditures:		
Current:		
Projects	<u>-</u>	<u>50,000</u>
Revenue over (under) expenditures	414	(41)
Fund balance - January 1	<u>2,825</u>	<u>2,866</u>
Fund balance - December 31	<u><u>\$3,239</u></u>	<u><u>\$2,825</u></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 IN INTERNAL CONTROL

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

In planning and performing our audit of the financial statements of Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2007, 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 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 of findings and responses as items 2007-1 and 2007-2.

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Comfort Lake-Forest Lake Watershed District
Communication of Significant Deficiencies that
Indicates No Material Weaknesses in Internal Control
Page 2

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

April 25, 2008

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2007-1 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: 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 remain aware of this matter. 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.

2007-2 Financial Statement Misstatements

Criteria: Statement on Auditing Standards (SAS) 112 specifies that a misstatement of any magnitude that could occur and not be detected by the District's controls be considered a significant deficiency in internal control.

Condition: The District did not make the prior year's closing journal entries on their accounting system to record payables and taxes receivable.

Cause: Unknown.

Effect: By not making the closing entries on the District's accounting system, the monthly financial statements are not accurate during the year.

Recommendation: We recommend the District put procedures in place to ensure that all year-end entries are made and reviewed for accuracy and completeness.

Management Response: The District will make all audit entries to correct the account balances.



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, 2007 and have issued our report thereon dated April 25, 2008.

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 tax increment financing because it is not applicable to the Comfort Lake-Forest Lake Watershed District.

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

This report is intended solely for the information and use of 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

April 25, 2008

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Certified Public Accountants and Consultants

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of Comfort Lake-Forest Lake Watershed District as of and for the year ended December 31, 2007, and have issued our report thereon dated April 25, 2008. 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 September 11, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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 such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope identified in our engagement letter and within our anticipated time frame. We also provided for a two-way dialogue with you at the beginning of the audit in a discussion regarding auditor communications on March 11, 2008.

Significant Audit Results

Qualitative Aspects of Accounting Practices

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 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 2007. We noted no transactions entered into by Comfort Lake-Forest Lake Watershed District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. Comfort Lake-Forest Lake Watershed District does not have any particularly sensitive disclosures in its financial statements.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarized uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatement detected as a result of audit procedures, as corrected by management, the 2006 closing entries were not made on the District's accounting system. The entries were related to payables, taxes receivable and fund balance.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 25, 2008.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

April 25, 2008