

MINNEHAHA CREEK WATERSHED DISTRICT

ANNUAL FINANCIAL REPORT

For The Year Ended December 31, 2007

- This page intentionally left blank -

MINNEHAHA CREEK WATERSHED DISTRICT
TABLE OF CONTENTS

	<u>Ref No.</u>	<u>Page No.</u>
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	32
Budgetary Comparison Schedule - Management Planning Fund	Statement 7	33
Budgetary Comparison Schedule - Note to RSI		34
Individual Fund Statements:		
General Fund:		
Comparative Balance Sheet	Statement 8	36
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	Statement 9	37
Management Planning Fund:		
Comparative Balance Sheet	Statement 10	38
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	Statement 11	39
SUPPLEMENTARY FINANCIAL INFORMATION		
Management Planning Fund:		
Schedule of Revenues and Expenditures by Program/Project	Exhibit 1	42
Market Values by Watershed	Exhibit 2	50
OTHER REPORTS		
Communication of Significant Deficiencies that Indicate No Material Weaknesses in Internal Control		55
Report on Compliance with Minnesota Legal Compliance Audit Guide for Local Government		63

- This page intentionally left blank -

INTRODUCTORY SECTION

- This page intentionally left blank -

MINNEHAHA CREEK WATERSHED DISTRICT

ORGANIZATION

December 31, 2007

Board of Managers:

Term Expires

James Calkins - President

March, 2010

Pamela G. Blixt - Vice President

March, 2008

Dick Miller - Treasurer

March, 2008

Lee Keeley - Secretary

March, 2009

Jeff Casale

March, 2009

Brian Shekleton

March, 2010

Mike Klingelhutz

March, 2010

District Office:

L. Eric Evenson - District Administrator

Appointed

- This page intentionally left blank -

FINANCIAL SECTION

- This page intentionally left blank -



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Managers of the
Minnehaha Creek Watershed District
Deephaven, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of the Minnehaha Creek Watershed District as of and for the year ended December 31, 2007, which collectively comprise the Minnehaha Creek Watershed District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Minnehaha Creek 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 the Minnehaha Creek 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 Minnehaha Creek Watershed 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 32 to 34, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Minnehaha Creek Watershed District's basic financial statements.

- This page intentionally left blank -

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 5, 2008

- This page intentionally left blank -

BASIC FINANCIAL STATEMENTS

MINNEHAHA CREEK WATERSHED DISTRICT

STATEMENT OF NET ASSETS

December 31, 2007

Statement 1

	Primary Government	
	Governmental Activities	
	2007	2006
Assets:		
Cash and investments	\$9,841,222	\$8,201,180
Accounts receivable	-	389
Prepaid item	6,554	6,429
Property taxes receivable:		
Delinquent	104,514	80,801
Due from county	38,756	36,199
Escrow deposit receivable	-	30,000
Capital assets - net:		
Depreciable	21,624	19,520
Nondepreciable	2,942,078	2,467,792
Total assets	<u>12,954,748</u>	<u>10,842,310</u>
Liabilities:		
Accounts payable	174,626	103,001
Salaries payable	13,873	10,877
Due to other governments	1,010,334	1,009,309
Contracts payable	16,143	82,710
Surety deposits payable	287,807	255,720
Unearned revenue	-	37,500
Compensated absences payable:		
Due within one year	506	3,269
Due in more than one year	41,850	26,765
Loans payable:		
Due within one year	-	600,000
Total liabilities	<u>1,545,139</u>	<u>2,129,151</u>
Net assets:		
Invested in capital assets, net of related debt	2,963,702	1,887,312
Unrestricted	8,445,907	6,825,847
Total net assets	<u>\$11,409,609</u>	<u>\$8,713,159</u>

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

MINNEHAHA CREEK WATERSHED DISTRICT

STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2007

Statement 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Primary Government</u>	
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Totals</u>	
					<u>2007</u>	<u>2006</u>
Primary government:						
Governmental activities:						
General government	\$1,306,004	\$ -	\$ -	\$ -	(\$1,306,004)	(\$1,130,912)
Programs	294,794	58,214	-	-	(236,580)	(727,706)
Projects	<u>1,658,701</u>	<u>-</u>	<u>61,851</u>	<u>270,000</u>	<u>(1,326,850)</u>	<u>(867,660)</u>
Total governmental activities	<u>\$3,259,499</u>	<u>\$58,214</u>	<u>\$61,851</u>	<u>\$270,000</u>	<u>(2,869,434)</u>	<u>(2,726,278)</u>
General revenues:						
Property taxes					5,078,539	4,371,251
Grants and contributions not restricted to specific programs					108,229	116,009
Unrestricted investment earnings					368,805	322,736
Gain on sale of capital asset					9,286	-
Miscellaneous other					<u>1,025</u>	<u>2,982</u>
Total general revenues					<u>5,565,884</u>	<u>4,812,978</u>
Change in net assets					2,696,450	2,086,700
Net assets - beginning					<u>8,713,159</u>	<u>6,626,459</u>
Net assets - ending					<u>\$11,409,609</u>	<u>\$8,713,159</u>

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

MINNEHAHA CREEK WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007

Statement 3

Assets	General Fund	Management Planning Fund	Total Governmental Funds	
			2007	2006
Cash and investments	\$416,650	\$9,424,572	\$9,841,222	\$8,201,180
Accounts receivable - net	-	-	-	389
Prepaid item	6,554	-	6,554	6,429
Taxes receivable:				
Delinquent	2,372	102,142	104,514	80,801
Due from county	38,756	-	38,756	36,199
Escrow deposit receivable	-	-	-	30,000
Total assets	<u>\$464,332</u>	<u>\$9,526,714</u>	<u>\$9,991,046</u>	<u>\$8,354,998</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$31,063	\$143,563	\$174,626	\$103,001
Salaries payable	13,873	-	13,873	10,877
Due to other governments	3,952	1,006,382	1,010,334	1,009,309
Contracts payable	-	16,143	16,143	82,710
Surety deposit payable	287,807	-	287,807	255,720
Notes payable	-	-	-	600,000
Deferred revenue	2,372	102,142	104,514	118,301
Total liabilities	<u>339,067</u>	<u>1,268,230</u>	<u>1,607,297</u>	<u>2,179,918</u>
Fund balance:				
Reserved for prepaid item	6,554	-	6,554	6,429
Unreserved:				
Designated:				
Special Revenue Fund	-	8,258,484	8,258,484	6,045,099
Undesignated:				
General Fund	118,711	-	118,711	123,552
Total fund balance	<u>125,265</u>	<u>8,258,484</u>	<u>8,383,749</u>	<u>6,175,080</u>
Total liabilities and fund balance	<u>\$464,332</u>	<u>\$9,526,714</u>	<u>\$9,991,046</u>	<u>\$8,354,998</u>
Fund balance reported above			\$8,383,749	\$6,175,080
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.				
			2,963,702	2,487,312
Long-term liabilities, including compensated absences payable, and loans payable are not due and payable in the current period and therefore are not reported in the funds.				
			(42,356)	(30,034)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				
			104,514	80,801
Net assets of governmental activities			<u>\$11,409,609</u>	<u>\$8,713,159</u>

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

MINNEHAHA CREEK 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>Management Planning Fund</u>	<u>Total Governmental Funds</u>	
			<u>2007</u>	<u>2006</u>
Revenues:				
General property taxes	\$108,950	\$4,945,876	\$5,054,826	\$4,357,209
Intergovernmental - MVHC	2,333	105,896	108,229	116,009
Intergovernmental - cost share	-	17,451	17,451	115,576
Intergovernmental - other	-	44,400	44,400	49,343
Permits	-	38,964	38,964	51,030
Investment income	7,949	360,856	368,805	322,736
Other	1,025	19,250	20,275	2,982
Total revenues	<u>120,257</u>	<u>5,532,693</u>	<u>5,652,950</u>	<u>5,014,885</u>
Expenditures:				
Current:				
General government	124,973	1,164,020	1,288,993	1,115,199
Programs	-	294,794	294,794	778,736
Projects	-	1,665,494	1,665,494	1,032,579
Capital outlay	-	990,000	990,000	1,773,250
Total expenditures	<u>124,973</u>	<u>4,114,308</u>	<u>4,239,281</u>	<u>4,699,764</u>
Revenues over (under) expenditures	(4,716)	1,418,385	1,413,669	315,121
Other financing sources (uses):				
Proceeds from sale of land	-	795,000	795,000	-
Net change in fund balance	(4,716)	2,213,385	2,208,669	315,121
Fund balance - January 1	<u>129,981</u>	<u>6,045,099</u>	<u>6,175,080</u>	<u>5,859,959</u>
Fund balance - December 31	<u>\$125,265</u>	<u>\$8,258,484</u>	<u>\$8,383,749</u>	<u>\$6,175,080</u>

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

MINNEHAHA CREEK 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)	\$2,208,669	\$315,121
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	992,104	1,761,026
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net assets.	(515,714)	-
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	23,713	14,042
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:		
Compensated absences	<u>(12,322)</u>	<u>(3,489)</u>
Change in net assets of governmental activities (Statement 2)	<u><u>\$2,696,450</u></u>	<u><u>\$2,086,700</u></u>

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

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Minnehaha Creek Watershed District conform to generally accepted accounting principles applicable to governmental units. The following is a summary of significant accounting policies.

A. FINANCIAL REPORTING ENTITY

The Minnehaha Creek Watershed District (the District) was created in 1967 under the Minnesota Watershed Act as amended by the Minnesota Water Resources Board as provided in Minnesota Statutes Chapter 112. The District is operated by a seven member Board of Managers appointed by the Hennepin and Carver County Boards of Commissioners for three year terms. Approximately 150 square miles of the District is in Hennepin County, while 30 square miles is in Carver County. The District includes all or part of 27 cities and 3 townships. In accordance with GASB pronouncements and generally accepted accounting principles, the financial statements of the reporting entity should include the primary government and its component units. The District (primary government) does not have any component units.

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 services.

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.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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 expenses and for the construction and maintenance of projects of common benefit to the District. Pursuant to Minnesota Statutes 103 D.905 subd. 3, the District's general fund may levy an amount not to exceed .048 percent of taxable market value or \$250,000, whichever is less.

Management Planning Fund Minn. Stat. Sec. 103B.241, subd. 1. - was established for the preparation of an overall plan for projects and improvements, and for projects and improvements to implement the approved plan. The Fund collects an ad valorem tax levy. The District levies out of Minnesota Statute Section 103B.

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.

D. BUDGETARY DATA

The Board of Managers adopts an annual budget for the General Fund and the Management Planning Fund 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 District monitors budget performances on the fund basis. All amounts over budget have been approved by the Board through the disbursement approval process.

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, in the financial statements. The District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

F. MARKET VALUE HOMESTEAD CREDIT (MVHC)

Property taxes on homestead property (as defined by State Statutes) are partially reduced by market value homestead credit. 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.

G. 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 City, 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.

MINNEHAHA CREEK 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 City 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 year end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the District in January is fully offset by deferred revenue because they are not available to finance current expenditures.

H. INVENTORIES

The original cost of materials and supplies has been recorded as expenditures at the time of purchase. The District does not maintain material amounts of inventories of goods and supplies.

I. 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. 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 implemented the general provisions of GASB Statement No. 34 in 2004 and has elected not to report infrastructure assets acquired in years prior to 2004. The District did not acquire any infrastructure assets during 2007.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Property, plant and equipment of the District is depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Vehicles	5 years

J. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and accumulated sick leave benefits that is vested as severance pay is accrued when incurred in the government-wide financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

K. 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.

L. 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.

M. 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.

N. PREPAID ITEMS

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

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 BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – 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 explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$992,104 difference is as follows:

Capital outlay	\$990,000
Capitalized current expenditures	14,715
Depreciation expense	<u>(12,611)</u>
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities.	<u><u>\$992,104</u></u>

Another element of that reconciliation states that “the net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets.” The details of this (\$515,714) difference is as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources, thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	(\$785,714)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	<u>270,000</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u><u>(\$515,714)</u></u>

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Another 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 \$23,713 difference is as follows:

General property taxes deferred revenue:	
At December 31, 2006	(\$80,801)
At December 31, 2007	<u>104,514</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>\$23,713</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 (\$12,322) difference is as follows:

Compensated absences:	
At December 31, 2006	\$30,034
At December 31, 2007	<u>(42,356)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>(\$12,322)</u></u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

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

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

- a) United States government treasury bills, treasury notes, treasury bonds;

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

- 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 \$9,841,222 and the bank balance was \$9,893,853. The entire bank balance was covered by federal depository insurance, surety bonds 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.
- 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.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2007

- 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

Significant receivable balances not expected to be collected within one year of December 31, 2007 are as follows:

	Major Funds		
	General	Management Planning	Total
Delinquent property taxes	\$1,100	\$47,000	\$48,100

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
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)	\$2,372	\$ -
Delinquent property taxes receivable (Management Planning Fund)	<u>102,142</u>	<u>-</u>
Total deferred/unearned revenue for governmental funds	<u><u>\$104,514</u></u>	<u><u>\$0</u></u>

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>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	<u>\$2,467,792</u>	<u>\$1,260,000</u>	<u>(\$785,714)</u>	<u>\$2,942,078</u>
Capital assets, being depreciated:				
Furniture	-	6,224	-	6,224
Equipment	27,634	8,491	-	36,125
Vehicle	33,490	-	-	33,490
Total capital assets, being depreciated	<u>61,124</u>	<u>14,715</u>	<u>0</u>	<u>75,839</u>
Less accumulated depreciation for:				
Furniture	-	1,245	-	1,245
Equipment	21,526	6,401	-	27,927
Vehicle	20,078	4,965	-	25,043
Total accumulated depreciation	<u>41,604</u>	<u>12,611</u>	<u>0</u>	<u>54,215</u>
Total capital assets being depreciated - net	<u>19,520</u>	<u>2,104</u>	<u>-</u>	<u>21,624</u>
Governmental activities capital assets - net	<u><u>\$2,487,312</u></u>	<u><u>\$1,262,104</u></u>	<u><u>(\$785,714)</u></u>	<u><u>\$2,963,702</u></u>

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Depreciation expense was charged to function/programs of the District as follows:

Governmental activities:	
General government	\$10,913
Projects	<u>1,698</u>
General government	<u><u>\$12,611</u></u>

Note 5 DEBT

Short-term and long-term liability activity for the year ended December 31, 2007, was as follows:

	Balance 01/01/07	Additions	Deletions	Balance 12/31/07	Due Within One Year
Governmental activities:					
Loans payable	\$600,000	\$ -	(\$600,000)	\$ -	\$ -
Compensated absences	<u>30,034</u>	<u>30,502</u>	<u>(18,180)</u>	<u>42,356</u>	<u>506</u>
Total governmental activities	<u><u>\$630,034</u></u>	<u><u>\$30,502</u></u>	<u><u>(\$618,180)</u></u>	<u><u>\$42,356</u></u>	<u><u>\$506</u></u>

For the governmental activities, compensated absences are generally liquidated by the General Fund. All loans are liquidated by the Management Planning Fund.

Note 6 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

All full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statute, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

B. FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.50% effective January 1, 2008. The District's contribution to the Public Employees Retirement Fund for the years ended December 31, 2007, 2006 and 2005 were \$38,979, \$29,658 and \$26,873, respectively. The District's contributions were equal to the contractually required contributions for the years as set by state statute.

Note 7 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 plaintiffs.

Note 8 DESIGNATIONS AND RESERVATIONS OF FUND EQUITY

At December 31, 2007 and 2006, the District had designations and reservations of fund balances as follows:

	For the Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
General Fund:		
Reserved for prepaid items	<u>\$6,554</u>	<u>\$6,429</u>
Management Planning Fund:		
Designated for management planning	<u>\$8,258,484</u>	<u>\$6,045,099</u>

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Note 9 **FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS**

The District receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at December 31, 2007.

Note 10 **RISK MANAGEMENT**

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty and worker's compensation liabilities are insured. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

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

Note 11 **OPERATING LEASE**

The District leases office space from an unrelated third party. The lease is classified as an operating lease. The term of the lease is September 1, 2002 through September 1, 2008. The District is currently leasing on a month to month basis, for \$6,697 per month. Lease expenditures for the year ended December 31, 2007 amounted to \$80,365.

MINNEHAHA CREEK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Note 12 COST SHARE AGREEMENTS

The District previously entered into cost share agreements with various property owners to install and maintain wetland buffers. The cost share agreements are paid in annual installments.

The following is a schedule of future payments under the cost share agreements.

<u>Year</u>	<u>Vanderlinde</u>	<u>Dimler</u>	<u>Downs</u>	<u>Total</u>
2008	\$1,560	\$6,038	\$750	\$8,348
2009	1,560	3,020	750	5,330
2010	1,560	3,020	750	5,330
2011	1,560	3,020	750	5,330
2012	1,560	3,020	750	5,330
2013	1,560	2,782	750	5,092
2014	1,560	2,620	750	4,930
2015	1,560	2,620	750	4,930
2016	-	600	750	1,350
	<u>\$12,480</u>	<u>\$26,740</u>	<u>\$6,750</u>	<u>\$45,970</u>

Note 13 COMMITTED CONTRACTS

At December 31, 2007, the District had commitments of \$733,273 for uncompleted construction contracts.

REQUIRED SUPPLEMENTARY INFORMATION

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended December 31, 2007

Statement 6

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget - Positive (Negative)	2006 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$115,257	\$115,257	\$108,950	(\$6,307)	\$111,398
Intergovernmental - MVHC	2,333	2,333	2,333	-	2,979
Investment income	-	-	7,949	7,949	6,286
Other	-	-	1,025	1,025	2,982
Total revenues	117,590	117,590	120,257	2,667	123,645
Expenditures:					
General government:					
Engineering	4,800	4,800	5,110	(310)	4,800
Legal	6,500	6,500	4,964	1,536	4,979
Wages	61,000	61,000	67,835	(6,835)	57,787
Manager's per diem and expenses	3,145	3,145	2,036	1,109	1,550
Accounting and auditing	5,100	5,100	5,683	(583)	4,993
Contract services	1,500	1,500	1,450	50	791
Insurance	1,750	1,750	1,489	261	1,441
Office supplies and postage	3,320	3,320	5,827	(2,507)	3,096
Other/miscellaneous/meetings	1,300	1,300	1,294	6	1,922
Payroll taxes and employee benefits	17,083	17,083	14,539	2,544	13,583
Printing/publications	550	550	1,111	(561)	874
Rent	9,415	9,415	8,005	1,410	8,458
Repairs and maintenance	1,200	1,200	1,840	(640)	2,593
Staff training and expenses	1,680	1,680	2,065	(385)	1,108
Telephone	900	900	1,123	(223)	960
Miscellaneous	250	250	602	(352)	768
Total expenditures	119,493	119,493	124,973	(5,480)	109,703
Revenues over (under) expenditures	<u>(\$1,903)</u>	<u>(\$1,903)</u>	(4,716)	<u>(\$2,813)</u>	13,942
Fund balances - beginning			<u>129,981</u>		<u>116,039</u>
Fund balances - ending			<u>\$125,265</u>		<u>\$129,981</u>

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - MANAGEMENT PLANNING FUND
For The Year Ended December 31, 2007

Statement 7

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget - Positive (Negative)	2006 Actual Amounts
	Original	Final			
	Revenues:				
General property taxes	\$4,966,033	\$4,966,033	\$4,945,876	(\$20,157)	\$4,245,811
Intergovernmental - MVHC	105,896	105,896	105,896	-	113,030
Intergovernmental - cost share	-	-	17,451	17,451	115,576
Intergovernmental - other	37,500	37,500	44,400	6,900	49,343
Investment income	290,000	290,000	360,856	70,856	316,450
Permits	-	-	38,964	38,964	51,030
Other	114,687	114,687	19,250	(95,437)	-
Total revenues	<u>5,514,116</u>	<u>5,514,116</u>	<u>5,532,693</u>	<u>18,577</u>	<u>4,891,240</u>
Expenditures:					
District operations and personnel	1,158,503	1,158,503	1,164,020	(5,517)	1,006,657
Public education/stakeholder communications	295,600	295,600	294,794	806	181,125
Project development	421,965	421,965	521,765	(99,800)	286,583
Project implementation	5,390,350	5,390,350	1,143,729	4,246,621	1,342,446
Capital outlay	-	-	990,000		1,773,250
Total expenditures	<u>7,266,418</u>	<u>7,266,418</u>	<u>4,114,308</u>	<u>4,142,110</u>	<u>4,590,061</u>
Revenues over (under) expenditures	<u>(1,752,302)</u>	<u>(1,752,302)</u>	<u>1,418,385</u>	<u>4,160,687</u>	<u>301,179</u>
Other financing sources (uses):					
Proceeds from sale of land	-	-	795,000	(795,000)	-
Transfers in	-	-	523,867	(523,867)	1,873,118
Transfers out	-	-	(523,867)	523,867	(1,873,118)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>795,000</u>	<u>(795,000)</u>	<u>0</u>
Net change in fund balances	<u>(\$1,752,302)</u>	<u>(\$1,752,302)</u>	<u>2,213,385</u>	<u>\$3,365,687</u>	<u>301,179</u>
Fund balances - beginning			<u>6,045,099</u>		<u>5,743,920</u>
Fund balances - ending			<u>\$8,258,484</u>		<u>\$6,045,099</u>

MINNEHAHA CREEK WATERSHED DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
December 31, 2007

Note A **BUDGETS**

The General Fund and Management Planning Fund budgets are 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 and Management Planning Fund.

INDIVIDUAL FUND STATEMENTS

MINNEHAHA CREEK WATERSHED DISTRICT
GENERAL FUND
COMPARATIVE BALANCE SHEET
 December 31, 2007
 With Comparative Amounts For December 31, 2006

Statement 8

Assets	2007	2006
Cash and investments	\$416,650	\$381,257
Accounts receivable - net	-	389
Prepaid expense	6,554	6,429
Taxes receivable:		
Delinquent	2,372	1,702
Due from county	38,756	36,199
Total assets	\$464,332	\$425,976
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$31,063	\$24,769
Salaries payable	13,873	10,877
Due to other governments	3,952	2,927
Surety deposit payable	287,807	255,720
Deferred revenue	2,372	1,702
Total liabilities	339,067	295,995
Fund balance:		
Reserved for prepaid items	6,554	6,429
Unreserved:		
Undesignated	118,711	123,552
Total fund balance	125,265	129,981
Total liabilities and fund balance	\$464,332	\$425,976

MINNEHAHA CREEK WATERSHED DISTRICT

GENERAL FUND

Statement 9

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

For The Year Ended December 31, 2007

With Comparative Totals For The Year Ended December 31, 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
General property taxes	\$108,950	\$111,398
Intergovernmental - MVHC	2,333	2,979
Investment income	7,949	6,286
Other	1,025	2,982
Total revenues	<u>120,257</u>	<u>123,645</u>
Expenditures:		
General government	<u>124,973</u>	<u>109,703</u>
Revenues over (under) expenditures	(4,716)	13,942
Fund balance - January 1	<u>129,981</u>	<u>116,039</u>
Fund balance - December 31	<u><u>\$125,265</u></u>	<u><u>\$129,981</u></u>

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
COMPARATIVE BALANCE SHEET
December 31, 2007
With Comparative Totals For December 31, 2006

Statement 10

	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$9,424,572	\$7,819,923
Property taxes receivable:		
Delinquent	102,142	79,099
Escrow deposit receivable	<u>-</u>	<u>30,000</u>
Total assets	<u><u>\$9,526,714</u></u>	<u><u>\$7,929,022</u></u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$143,563	\$78,232
Due to other governments	1,006,382	1,006,382
Contracts payable	16,143	82,710
Notes payable	-	600,000
Deferred revenue	102,142	116,599
Total liabilities	<u>1,268,230</u>	<u>1,883,923</u>
Fund balance:		
Designated for management planning	<u>8,258,484</u>	<u>6,045,099</u>
Total fund balance	<u>8,258,484</u>	<u>6,045,099</u>
Total liabilities and fund balance	<u><u>\$9,526,714</u></u>	<u><u>\$7,929,022</u></u>

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For The Year Ended December 31, 2007
With Comparative Totals For The Year Ended December 31, 2006

Statement 11

	<u>2007</u>	<u>2006</u>
Revenues:		
General property taxes	\$4,945,876	\$4,245,811
Intergovernmental - MVHC	105,896	113,030
Intergovernmental - cost share	17,451	115,576
Intergovernmental - other	44,400	49,343
Permits	38,964	51,030
Investment income	360,856	316,450
Other	19,250	-
Total revenues	<u>5,532,693</u>	<u>4,891,240</u>
Expenditures:		
Current:		
General government	1,164,020	1,005,496
Programs	294,794	778,736
Projects	1,665,494	1,032,579
Capital outlay	990,000	1,773,250
Total expenditures	<u>4,114,308</u>	<u>4,590,061</u>
Revenues over expenditures	<u>1,418,385</u>	<u>301,179</u>
Other financing sources (uses):		
Proceeds from sale of land	795,000	-
Transfers in	523,867	1,873,118
Transfers out	(523,867)	(1,873,118)
Total other financing sources (uses)	<u>795,000</u>	<u>0</u>
Net change in fund balance	2,213,385	301,179
Fund balance - January 1	<u>6,045,099</u>	<u>5,743,920</u>
Fund balance - December 31	<u><u>\$8,258,484</u></u>	<u><u>\$6,045,099</u></u>

- This page intentionally left blank -

SUPPLEMENTARY FINANCIAL INFORMATION

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2007

	1002 General	2101 Permit Administration	2102 Rule Revisions	2201 Hydro Database	2202 NPDES Phase II Compliance
Revenues:					
General property taxes	\$1,057,515	\$76,093	\$ -	\$120,193	\$ -
Intergovernmental - MVHC	22,643	1,629	-	2,573	-
Intergovernmental - cost share	-	-	-	-	-
Intergovernmental - other	-	-	-	-	-
Permits	-	38,964	-	-	-
Investment income	77,157	5,552	-	8,769	-
Other	-	-	-	-	-
Total revenues	1,157,315	122,238	0	131,535	0
Expenditures:					
General government:					
District operations and personnel	1,151,728	929	-	-	-
Programs:					
Public education/ stakeholder communications	-	-	-	-	-
Projects:					
Project development	-	105,070	23,829	2,439	629
Project implementation	-	63,136	-	159,148	-
Capital outlay	-	-	-	-	-
Total expenditures	1,151,728	169,135	23,829	161,587	629
Revenues over (under) expenditures	5,587	(46,897)	(23,829)	(30,052)	(629)
Other financing sources (uses):					
Proceeds from sale of land	-	-	-	-	-
Transfers in	-	-	-	-	629
Transfers out	(19,362)	-	-	-	-
Total other financing sources (uses)	(19,362)	0	0	0	629
Net change in fund balance	(13,775)	(46,897)	(23,829)	(30,052)	0
Fund balance (deficit) - beginning of year	1,382,850	99,040	110,443	114,084	-
Fund balance (deficiti) - end of year	\$1,369,075	\$52,143	\$86,614	\$84,032	\$0

2204 Vegetative Mgt. Study	2301 Stewardship Grant Program	2302 Education/ Stakeholder Comm.	2303 Waterpro	2304 Website Manager	2305 Watershed Youth Program	2306 Landuse Roundtables	2307 Water Events and Tours
\$ -	\$82,991	\$99,912	\$ -	\$ -	\$ -	\$ -	\$ -
-	1,777	2,139	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	6,055	7,437	-	-	-	-	-
-	-	19,250	-	-	-	-	-
<u>0</u>	<u>90,823</u>	<u>128,738</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
-	-	357	-	-	-	-	-
-	157,342	130,638	-	34	-	-	90
-	-	-	-	-	-	-	-
3,135	12,179	14,538	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>3,135</u>	<u>169,521</u>	<u>145,533</u>	<u>0</u>	<u>34</u>	<u>0</u>	<u>0</u>	<u>90</u>
<u>(3,135)</u>	<u>(78,698)</u>	<u>(16,795)</u>	<u>0</u>	<u>(34)</u>	<u>0</u>	<u>0</u>	<u>(90)</u>
-	-	-	-	-	-	-	-
-	-	32,433	9,960	8,930	10,220	-	907
-	-	-	-	-	-	(62,450)	-
<u>0</u>	<u>0</u>	<u>32,433</u>	<u>9,960</u>	<u>8,930</u>	<u>10,220</u>	<u>(62,450)</u>	<u>907</u>
(3,135)	(78,698)	15,638	9,960	8,896	10,220	(62,450)	817
-	152,504	42,100	(9,960)	(8,896)	(10,220)	62,450	(817)
<u>(\$3,135)</u>	<u>\$73,806</u>	<u>\$57,738</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2007

	2401 Watershed Planning	2402 / 2403 509 Plan Update	2404 Hydrologic / Hydraulic Model	2405 Planning & Policy Dev./Justif.	2406 Government Relations
Revenues:					
General property taxes	\$ -	\$228,228	\$ -	\$ -	\$26,068
Intergovernmental - MVHC	-	4,887	-	-	558
Intergovernmental - cost share	-	-	-	-	-
Intergovernmental - other	-	-	-	-	-
Permits	-	-	-	-	-
Investment income	-	16,652	-	-	1,755
Other	-	-	-	-	-
Total revenues	<u>0</u>	<u>249,767</u>	<u>0</u>	<u>0</u>	<u>28,381</u>
Expenditures:					
General government:					
District operations and personnel	1,221	-	-	9,329	-
Programs:					
Public education/ stakeholder communications	-	-	-	-	-
Projects:					
Project development	9,242	50,329	943	23,805	27,415
Project implementation	-	6,089	4,961	-	1,583
Capital outlay	-	-	-	-	-
Total expenditures	<u>10,463</u>	<u>56,418</u>	<u>5,904</u>	<u>33,134</u>	<u>28,998</u>
Revenues over (under) expenditures	<u>(10,463)</u>	<u>193,349</u>	<u>(5,904)</u>	<u>(33,134)</u>	<u>(617)</u>
Other financing sources (uses):					
Proceeds from sale of land	-	-	-	-	-
Transfers in	112,003	-	5,904	75,442	-
Transfers out	-	(193,349)	-	-	-
Total other financing sources (uses)	<u>112,003</u>	<u>(193,349)</u>	<u>5,904</u>	<u>75,442</u>	<u>0</u>
Net change in fund balance	101,540	0	0	42,308	(617)
Fund balance (deficit) - beginning of year	<u>25,341</u>	<u>-</u>	<u>-</u>	<u>(42,308)</u>	<u>6,792</u>
Fund balance (deficit) - end of year	<u>\$126,881</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$6,175</u>

2501 Maintenance	2502 Regional Pond Maintenance	2503 Vegetation Maintenance	2504 Ditch Maintenance	2505 CR6/Deerhill Road Weir Repairs	2506 Independence Wetland Restoration	3101 Lake Nokomis	3102 Painters Creek / Jennings Bay
\$17,349	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$75,349
371	-	-	-	-	-	-	1,613
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,266	-	-	-	-	-	-	5,498
-	-	-	-	-	-	-	-
<u>18,986</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>82,460</u>
456	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
78	-	-	-	-	-	-	1,226
50,933	2,248	-	285	-	-	11,974	30,694
-	-	-	-	-	-	-	-
<u>51,467</u>	<u>2,248</u>	<u>0</u>	<u>285</u>	<u>0</u>	<u>0</u>	<u>11,974</u>	<u>31,920</u>
(32,481)	(2,248)	0	(285)	0	0	(11,974)	50,540
-	-	-	-	-	-	-	-
-	19,122	164,249	418	53,068	3,583	-	-
(240,440)	-	-	-	-	-	-	-
<u>(240,440)</u>	<u>19,122</u>	<u>164,249</u>	<u>418</u>	<u>53,068</u>	<u>3,583</u>	<u>0</u>	<u>0</u>
(272,921)	16,874	164,249	133	53,068	3,583	(11,974)	50,540
346,171	(16,874)	(164,249)	(133)	(53,068)	(3,583)	244,789	227,958
<u>\$73,250</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$232,815</u>	<u>\$278,498</u>

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2007

	3103 60th / 1st	3104 Pamela Park	3105 Stubbs- Maxwell Bay Project	3106 Halstads Six-Mile Creek	3107 Gray's Bay Causeway Stabilization
Revenues:					
General property taxes	\$ -	\$ -	\$428,035	\$ -	\$ -
Intergovernmental - MVHC	-	-	9,165	-	-
Intergovernmental - cost share	-	-	-	-	-
Intergovernmental - other	-	-	-	-	-
Permits	-	-	-	-	-
Investment income	-	-	31,230	-	-
Other	-	-	-	-	-
Total revenues	<u>0</u>	<u>0</u>	<u>468,430</u>	<u>0</u>	<u>0</u>
Expenditures:					
General government:					
District operations and personnel	-	-	-	-	-
Programs:					
Public education/ stakeholder communications	-	-	-	-	-
Projects:					
Project development	-	-	9,619	-	-
Project implementation	-	520	38,285	-	9,850
Capital outlay	-	-	-	-	-
Total expenditures	<u>0</u>	<u>520</u>	<u>47,904</u>	<u>0</u>	<u>9,850</u>
Revenues over (under) expenditures	<u>0</u>	<u>(520)</u>	<u>420,526</u>	<u>0</u>	<u>(9,850)</u>
Other financing sources (uses):					
Proceeds from sale of land	-	-	-	-	-
Transfers in	-	520	-	-	9,850
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>0</u>	<u>520</u>	<u>0</u>	<u>0</u>	<u>9,850</u>
Net change in fund balance	0	0	420,526	0	0
Fund balance (deficit) - beginning of year	<u>3,316</u>	<u>-</u>	<u>87,334</u>	<u>-</u>	<u>-</u>
Fund balance (deficit) - end of year	<u><u>\$3,316</u></u>	<u><u>\$0</u></u>	<u><u>\$507,860</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

3108 Gleason Lake	3109 Gideon's Glen	3110 Methodist Hospital	3111 Special Projects Fund	3112, 3113 Creek Assessment Phase I, II	3114 Mound-Cook Bay-Langdon Lake	3115 Headwaters Improvement	3116 Long Lake Project
\$ -	\$ -	\$ -	\$ -	\$153,072	\$232,665	\$ -	\$ -
-	-	-	-	3,277	4,982	-	-
6,000	-	-	-	-	-	11,451	-
44,400	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	11,168	16,975	-	-
-	-	-	-	-	-	-	-
<u>50,400</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>167,517</u>	<u>254,622</u>	<u>11,451</u>	<u>0</u>
-	-	-	-	-	-	-	-
-	4,758	-	-	-	-	1,349	-
-	-	2,449	33,022	-	-	-	-
222,007	7,663	1,860	14,375	1,447	192,098	18,550	-
-	-	-	-	-	-	-	-
<u>222,007</u>	<u>12,421</u>	<u>4,309</u>	<u>47,397</u>	<u>1,447</u>	<u>192,098</u>	<u>19,899</u>	<u>0</u>
<u>(171,607)</u>	<u>(12,421)</u>	<u>(4,309)</u>	<u>(47,397)</u>	<u>166,070</u>	<u>62,524</u>	<u>(8,448)</u>	<u>0</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	8,266
-	-	-	-	-	-	-	-
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,266</u>
<u>(171,607)</u>	<u>(12,421)</u>	<u>(4,309)</u>	<u>(47,397)</u>	<u>166,070</u>	<u>62,524</u>	<u>(8,448)</u>	<u>8,266</u>
<u>325,915</u>	<u>63,282</u>	<u>552,247</u>	<u>229,245</u>	<u>748,373</u>	<u>978,160</u>	<u>(67,206)</u>	<u>(8,266)</u>
<u>\$154,308</u>	<u>\$50,861</u>	<u>\$547,938</u>	<u>\$181,848</u>	<u>\$914,443</u>	<u>\$1,040,684</u>	<u>(\$75,654)</u>	<u>\$0</u>

MINNEHAHA CREEK WATERSHED DISTRICT
MANAGEMENT PLANNING FUND
SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM/PROJECT
For The Year Ended December 31, 2007

	3117 Lake Minnetonka Shoreland Restoration	3118 Grays Bay Marina	3120 Minnehaha Creek Gorge	3121 Low Impact Redevelopmen t	3122 Wasserman Lake
Revenues:					
General property taxes	\$149,129	\$ -	\$ -	\$414,958	\$ -
Intergovernmental - MVHC	3,193	-	-	8,885	-
Intergovernmental - cost share	-	-	-	-	-
Intergovernmental - other	-	-	-	-	-
Permits	-	-	-	-	-
Investment income	10,881	-	-	30,276	-
Other	-	-	-	-	-
Total revenues	163,203	0	0	454,119	0
Expenditures:					
General government:					
District operations and personnel	-	-	-	-	-
Programs:					
Public education/ stakeholder communications	-	-	-	-	-
Projects:					
Project development	-	1,704	71,262	20,309	51,664
Project implementation	-	-	130	-	-
Capital outlay	-	-	-	-	-
Total expenditures	0	1,704	71,392	20,309	51,664
Revenues over (under) expenditures	163,203	(1,704)	(71,392)	433,810	(51,664)
Other financing sources (uses):					
Proceeds from sale of land	-	-	-	-	-
Transfers in	-	1,704	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	0	1,704	0	0	0
Net change in fund balance	163,203	0	(71,392)	433,810	(51,664)
Fund balance (deficit) - beginning of year	20,307	-	(6,469)	-	-
Fund balance (deficit) - end of year	\$183,510	\$0	(\$77,861)	\$433,810	(\$51,664)

3123 Parly Lake	3124 Mooney Lake	3126 Big Island Wetland Restoration	3128 Long Lake Wetland Restoration	3201 Land Conservation	3202 District Land Restoration	3203 Habitat Restoration Initiative	3204 Milfoil Research	Total All Projects
\$ -	\$ -	\$ -	\$ -	\$1,659,832	\$124,487	\$ -	\$ -	\$4,945,876
-	-	-	-	35,539	2,665	-	-	105,896
-	-	-	-	-	-	-	-	17,451
-	-	-	-	-	-	-	-	44,400
-	-	-	-	-	-	-	-	38,964
-	-	-	-	121,102	9,083	-	-	360,856
-	-	-	-	-	-	-	-	19,250
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,816,473</u>	<u>136,235</u>	<u>0</u>	<u>0</u>	<u>5,532,693</u>
-	-	-	-	-	-	-	-	1,164,020
-	-	-	-	583	-	-	-	294,794
38,168	-	20,614	23,456	3,269	1,224	-	-	521,765
-	37,316	877	-	155,166	70,463	5,560	6,659	1,143,729
-	-	-	-	990,000	-	-	-	990,000
<u>38,168</u>	<u>37,316</u>	<u>21,491</u>	<u>23,456</u>	<u>1,149,018</u>	<u>71,687</u>	<u>5,560</u>	<u>6,659</u>	<u>4,114,308</u>
<u>(38,168)</u>	<u>(37,316)</u>	<u>(21,491)</u>	<u>(23,456)</u>	<u>667,455</u>	<u>64,548</u>	<u>(5,560)</u>	<u>(6,659)</u>	<u>1,418,385</u>
-	-	-	-	795,000	-	-	-	795,000
-	-	-	-	-	-	-	6,659	523,867
-	-	-	(8,266)	-	-	-	-	(523,867)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(8,266)</u>	<u>795,000</u>	<u>0</u>	<u>0</u>	<u>6,659</u>	<u>795,000</u>
<u>(38,168)</u>	<u>(37,316)</u>	<u>(21,491)</u>	<u>(31,722)</u>	<u>1,462,455</u>	<u>64,548</u>	<u>(5,560)</u>	<u>0</u>	<u>2,213,385</u>
-	-	-	-	562,082	-	52,365	-	6,045,099
<u><u>(\$38,168)</u></u>	<u><u>(\$37,316)</u></u>	<u><u>(\$21,491)</u></u>	<u><u>(\$31,722)</u></u>	<u><u>\$2,024,537</u></u>	<u><u>\$64,548</u></u>	<u><u>\$46,805</u></u>	<u><u>\$0</u></u>	<u><u>\$8,258,484</u></u>

MINNEHAHA CREEK WATERSHED DISTRICT
MARKET VALUES BY WATERSHED

For Taxes Payable in 2007

Watershed	Estimated Market Value		
	Personal	Real	Total
1 Nine Mile Creek	\$67,122,500	\$17,238,396,300	\$17,305,518,800
2 Lower MN River	328,851,200	2,971,458,300	3,300,309,500
3 Minnehaha Creek	185,979,500	41,334,814,500	41,520,794,000
4 Riley Purgatory	68,321,500	10,190,697,300	10,259,018,800
5 Rice Creek	379,500	152,509,000	152,888,500
6 Middle Mississippi	193,703,000	20,893,486,200	21,087,189,200
7 Bassett Creek	53,374,000	12,493,722,100	12,547,096,100
County total	<u>\$897,731,200</u>	<u>\$105,275,083,700</u>	<u>\$106,172,814,900</u>

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

For Taxes Payable in 2008

Watershed	Estimated Market Value		
	Personal	Real	Total
1 Nine Mile Creek	\$62,737,300	\$18,172,679,200	\$18,235,416,500
2 Lower MN River	370,247,900	3,243,639,000	3,613,886,900
3 Minnehaha Creek	175,520,800	43,535,001,900	43,710,522,700
4 Riley Purgatory	66,988,200	10,601,123,400	10,668,111,600
5 Rice Creek	373,300	155,549,000	155,922,300
6 Middle Mississippi	196,053,700	22,115,951,300	22,312,005,000
7 Bassett Creek	49,615,800	13,124,121,500	13,173,737,300
County total	<u>\$921,537,000</u>	<u>\$110,948,065,300</u>	<u>\$111,869,602,300</u>

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

Taxable Market Value			Referendum Market Value		
Personal	Real	Total	Personal	Real	Total
\$67,122,500	\$17,138,400,700	\$17,205,523,200	\$67,122,500	\$17,117,265,525	\$17,184,388,025
328,851,200	2,961,804,700	3,290,655,900	328,851,200	2,953,227,700	3,282,078,900
185,979,500	39,111,300,345	39,297,279,845	185,979,500	38,914,051,170	39,100,030,670
68,321,500	10,151,011,400	10,219,332,900	68,321,500	10,139,794,325	10,208,115,825
379,500	151,002,500	151,382,000	379,500	150,967,300	151,346,800
193,703,000	19,592,773,200	19,786,476,200	193,703,000	19,497,843,000	19,691,546,000
53,374,000	12,271,081,250	12,324,455,250	53,374,000	12,259,820,200	12,313,194,200
<u>\$897,731,200</u>	<u>\$101,377,374,095</u>	<u>\$102,275,105,295</u>	<u>\$897,731,200</u>	<u>\$101,032,969,220</u>	<u>\$101,930,700,420</u>

Taxable Market Value			Referendum Market Value		
Personal	Real	Total	Personal	Real	Total
\$62,737,300	\$18,132,693,500	\$18,195,430,800	\$62,737,300	\$18,106,672,075	\$18,169,409,375
370,247,900	3,237,025,300	3,607,273,200	370,247,900	3,227,861,050	3,598,108,950
175,520,800	42,248,581,685	42,424,102,485	175,520,800	42,023,072,535	42,198,593,335
66,988,200	10,583,939,600	10,650,927,800	66,988,200	10,572,270,325	10,639,258,525
373,300	155,142,300	155,515,600	373,300	155,107,100	155,480,400
196,053,700	21,659,805,430	21,855,859,130	196,053,700	21,563,036,955	21,759,090,655
49,615,800	13,052,894,850	13,102,510,650	49,615,800	13,041,065,800	13,090,681,600
<u>\$921,537,000</u>	<u>\$109,070,082,665</u>	<u>\$109,991,619,665</u>	<u>\$921,537,000</u>	<u>\$108,689,085,840</u>	<u>\$109,610,622,840</u>

- This page intentionally left blank -

OTHER REPORTS

- This page intentionally left blank -

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

To the Honorable Managers of the
Minnehaha Creek Watershed District
Deephaven, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Minnehaha Creek 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 the Minnehaha Creek 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 the Minnehaha Creek Watershed District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Minnehaha Creek 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 2007-1 through 2007-2.

- This page intentionally left blank -

Minnehaha Creek Watershed District
Communication of Significant Deficiencies that Indicate No
Material Weaknesses in Internal Control
Page 2

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 5, 2008

- This page intentionally left blank -

2007-1 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: Statement on Auditing Standards (SAS) No. 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 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.

Minnehaha Creek Watershed District
Communication of Significant Deficiencies that
Indicates No Material Weaknesses in Internal Control
Schedule of Findings and Responses
Page 4

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 and review of the draft financial statements) which provide satisfactory mitigation of the issue.

2007-2 Controls Over Disbursements Not Followed

Criteria: The District has internal control policies that it is required to follow regarding disbursements to prevent errors or fraud.

Condition: The District's internal control policy states that checks require two board member signatures. During audit procedures, we found a check that had only one signature.

Cause: Unknown.

Effect: By not following the control's the District has established, there is an increased risk for errors or fraud.

Recommendation: We recommend the District put procedures in place to ensure that all checks have the required two signatures.

Management Response: The District will continue to implement the procedures already in place, to prevent this from happening in the future.

- This page intentionally left blank -



Tautges Redpath, Ltd.

Certified Public Accountants and Consultants

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

To the Honorable Managers of the
Minnehaha Creek Watershed District
Deephaven, Minnesota

We have audited the basic financial statements of the Minnehaha Creek Watershed District, as of and for the year ended December 31, 2007 and have issued our report thereon dated May 5, 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 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 above listed categories except for tax increment financing as it does not pertain to the District.

The results of our tests indicate that for the items tested, the Minnehaha Creek 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 Minnehaha Creek Watershed District's Board of Managers and management and is not intended to be, and should not be, used by anyone other than these specified parties.

N&B Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 5, 2008

- This page intentionally left blank -