

Clearwater River Watershed District
Annandale, Minnesota

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Clearwater River Watershed District
Annandale, Minnesota

District Officials
December 31, 2007

<u>Board of Managers</u>	<u>Position</u>	<u>Term Expires</u>
Marvin Brunsell	Chairman	August 13, 2008
Dennis Loewen	Vice Chairman	August 13, 2010
Mark Kampa	Secretary	August 13, 2009
Robert Schiefelbein	Treasurer	August 13, 2009
Jerome Risberg	Public Relations	August 13, 2008

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Annandale, MN 55302
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BURKHARDT & BURKHARDT, Ltd.

Certified Public Accountants

Web Site: www.burkhardtlltd.com
E-mail: jeffrey@burkhardtlltd.com

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215 Carroll Street
Mankato, MN 56001
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Auditor's Report

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Clearwater River Watershed District, as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 opinion.

The Clearwater River Watershed District has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Clearwater River Watershed District as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 25 through 31, 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. 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 Clearwater River Watershed District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burkhardt & Burkhardt, Ltd

Burkhardt & Burkhardt, Ltd
Annandale, Minnesota

July 21, 2008

Clearwater River Watershed District
Annandale, Minnesota

Statement of Net Assets
December 31, 2007

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 149,539	\$ 62,727	\$ 212,266
Investments	560,590	0	560,590
Receivables:			
Accounts receivable	0	23,394	23,394
Property taxes receivable	14,048	0	14,048
Interest receivable	2,038	0	2,038
Prepaid expenses	178	709	887
Capital Assets:			
Land	117,347	35,400	152,747
Sanitary systems	0	2,070,541	2,070,541
Total Capital Assets	117,347	2,105,941	2,223,288
Less: accumulated depreciation	0	(286,638)	(286,638)
Net Capital Assets	117,347	1,819,303	1,936,650
 Total Assets	 \$ 843,740	 \$ 1,906,133	 \$ 2,749,873
 LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 42,541	\$ 6,923	\$ 49,464
Deferred revenue	21,940	0	21,940
 Total Liabilities	 64,481	 6,923	 71,404
Net Assets:			
Invested in capital assets, net of related debt	117,347	1,819,303	1,936,650
Unrestricted	661,912	79,907	741,819
Total Net Assets	779,259	1,899,210	2,678,469
 Total Liabilities and Net Assets	 \$ 843,740	 \$ 1,906,133	 \$ 2,749,873

The Notes to the Financial Statements are an Integral part of this Statement

Clearwater River Watershed District
Annandale, Minnesota

Statement of Activities
For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Totals
GOVERNMENTAL ACTIVITIES:							
General government	\$ 151,357	\$ 0	\$ 0	\$ 0	\$ (151,357)	\$ 0	\$ (151,357)
Special revenue	217,439	29,571	124,710	0	(63,158)	0	(63,158)
Capital projects	117,383	53,489	0	0	(63,894)	0	(63,894)
Total Governmental activities	<u>486,179</u>	<u>83,060</u>	<u>124,710</u>	<u>0</u>	<u>(278,409)</u>	<u>0</u>	<u>(278,409)</u>
BUSINESS-TYPE ACTIVITIES:							
Sanitary system	<u>131,635</u>	<u>58,721</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(72,914)</u>	<u>(72,914)</u>
Total Primary Government	<u>\$ 617,814</u>	<u>\$ 141,781</u>	<u>\$ 124,710</u>	<u>\$ 0</u>	<u>(278,409)</u>	<u>(72,914)</u>	<u>(351,323)</u>
General Revenues:							
Property taxes					230,969	0	230,969
State aid					21,138	0	21,138
Interest and investments earnings					21,738	1,560	23,298
Miscellaneous					25,572	935	26,507
Total General Revenues					<u>299,417</u>	<u>2,495</u>	<u>301,912</u>
Changes in Net Assets					21,008	(70,419)	(49,411)
Net Assets - Beginning					<u>758,251</u>	<u>1,969,629</u>	<u>2,727,880</u>
Net Assets - Ending					<u>\$ 779,259</u>	<u>\$ 1,899,210</u>	<u>\$ 2,678,469</u>

The Notes to the Financial Statements are an Integral part of this Statement

Clearwater River Watershed District
Annandale, Minnesota

Balance Sheet - Governmental Funds
December 31, 2007

	General	Special Revenue			Capital Projects	Other Governmental Funds	Total Governmental Funds
		Operations & Maintenance	Clearwater Milfoil	TMDL Phase II Addendum	Cedar, Albion Swartout Henshaw		
ASSETS							
Cash and cash equivalents	\$ (256,294)	\$ 261,809	\$ 29,637	\$ (23,719)	\$ 60,586	\$ 77,520	\$ 149,539
Investments	560,590	0	0	0	0	0	560,590
Property taxes receivable	13,671	0	0	0	0	377	14,048
Interest receivable	2,038	0	0	0	0	0	2,038
Prepaid expenses	178	0	0	0	0	0	178
Total Assets	\$ 320,183	\$ 261,809	\$ 29,637	\$ (23,719)	\$ 60,586	\$ 77,897	\$ 726,393
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 5,302	\$ 0	\$ 0	\$ 0	\$ 36,547	\$ 692	\$ 42,541
Deferred revenue	10,277	0	20,253	0	0	1,928	32,458
Total Liabilities	15,579	0	20,253	0	36,547	2,620	74,999
Fund Balances:							
Reserved:							
Capital projects funds	0	0	0	0	24,039	0	24,039
Unreserved:							
Special revenue funds	0	261,809	9,384	(23,719)	0	75,277	322,751
General Fund	304,604	0	0	0	0	0	304,604
Total Fund Balances	304,604	261,809	9,384	(23,719)	24,039	75,277	651,394
Total Liabilities and Fund Balance	\$ 320,183	\$ 261,809	\$ 29,637	\$ (23,719)	\$ 60,586	\$ 77,897	\$ 726,393

The Notes to the Financial Statements are an Integral part of this Statement

Clearwater River Watershed District
Annandale, Minnesota

Reconciliation of the Balance Sheet to the Statement Net Assets - Governmental Funds
December 31, 2007

Total Fund Balances - Governmental Funds	\$ 651,394
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 as assets in governmental funds.	
Cost of Capital Assets:	117,347
Receivables will be collected next year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	
Delinquent property taxes	<u>10,518</u>
Total Net Assets - Governmental Activities	<u><u>\$ 779,259</u></u>

Clearwater River Watershed District
Annandale, Minnesota

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
For the Year Ended December 31, 2007

	General	Special Revenue			Capital Projects	Other Governmental Funds	Total Governmental Funds
		Operations & Maintenance	Clearwater Milfoil	TMDL Phase II Addendum	Cedar, Albion Swartout Henshaw		
Revenues							
General property taxes	\$ 229,575	\$ 0	\$ 0	\$ 0	\$ 0	\$ 482	\$ 230,057
Intergovernmental revenue	21,138	0	15,106	47,412	0	62,191	145,847
Special assessments	0	7,472	24,953	0	53,490	3,013	88,928
Miscellaneous Income	2,055	151	0	0	0	24,364	26,570
Interest income	8,414	9,285	675	(36)	2,554	846	21,738
Total Revenue	<u>261,182</u>	<u>16,908</u>	<u>40,734</u>	<u>47,376</u>	<u>56,044</u>	<u>90,896</u>	<u>513,140</u>
Expenditures							
General government	151,357	0	0	0	0	0	151,357
Special revenue expenditures	0	27,907	40,478	71,095	0	77,959	217,439
Capital project expenditures	0	0	0	0	117,383	0	117,383
Total Expenditures	<u>151,357</u>	<u>27,907</u>	<u>40,478</u>	<u>71,095</u>	<u>117,383</u>	<u>77,959</u>	<u>486,179</u>
Excess Revenues Over(Under) Expenditures	109,825	(10,999)	256	(23,719)	(61,339)	12,937	26,961
Other Financing Sources(Uses)							
Transfer in	0	0	0	0	0	22,591	22,591
Transfers out	(22,591)	0	0	0	0	0	(22,591)
Total Other Financing Sources(Uses)	<u>(22,591)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,591</u>	<u>0</u>
Net Change in Fund Balance	87,234	(10,999)	256	(23,719)	(61,339)	35,528	26,961
Fund Balance - Beginning	<u>217,370</u>	<u>272,808</u>	<u>9,128</u>	<u>0</u>	<u>85,378</u>	<u>39,749</u>	<u>624,433</u>
Fund Balance - Ending	<u>\$ 304,604</u>	<u>\$ 261,809</u>	<u>\$ 9,384</u>	<u>\$ (23,719)</u>	<u>\$ 24,039</u>	<u>\$ 75,277</u>	<u>\$ 651,394</u>

The Notes to the Financial Statements are an Integral part of this Statement

Clearwater River Watershed District
Annandale, Minnesota

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances to the Statement of Activities - Governmental Funds
For the Year Ended December 31, 2007

Total Net Change in Fund Balances - Governmental Funds \$ 26,961

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

Receivables from last year were collected this year, but were not available soon enough to pay for the last year's current period's expenditures and therefore were deferred in the funds.

Delinquent property taxes	913
Special assessments	(5,866)
Overpayment refund from land purchase	<u>(1,000)</u>

Change in Net Assets - Governmental Activities \$ 21,008

Clearwater River Watershed District
Annandale, Minnesota

Statement of Net Assets - Proprietary Funds
December 31, 2007

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Totals
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 38,717	\$ (44)	\$ 24,054	\$ 62,727
Prepaid insurance	178	18	513	709
Accounts receivable	8,305	1,807	13,282	23,394
Total Current Assets	47,200	1,781	37,849	86,830
Capital Assets				
Capital assets	486,773	141,138	1,478,030	2,105,941
Less: Accumulated depreciation	(74,124)	(11,235)	(201,279)	(286,638)
Net Capital Assets	412,649	129,903	1,276,751	1,819,303
 Total Assets	\$ 459,849	\$ 131,684	\$ 1,314,600	\$ 1,906,133
 LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 100	\$ 0	\$ 6,823	\$ 6,923
Total Current Liabilities	100	0	6,823	6,923
Net Assets				
Invested in capital assets, net of related debt	412,649	129,903	1,276,751	1,819,303
Unrestricted	47,100	1,781	31,026	79,907
Total Net Assets	459,749	131,684	1,307,777	1,899,210
 Total Liabilities and Net Assets	\$ 459,849	\$ 131,684	\$ 1,314,600	\$ 1,906,133

The Notes to the Financial Statements are an Integral part of this Statement

Clearwater River Watershed District
Annandale, Minnesota

Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
For the Year Ended December 31, 2007

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Totals
Revenue				
Charges for services	\$ 20,011	\$ 5,769	\$ 32,941	\$ 58,721
Miscellaneous income	935	0	0	935
Total Revenues	20,946	5,769	32,941	59,656
Operating Expenses				
Depreciation	12,619	2,643	80,512	95,774
Engineering	1,380	254	1,464	3,098
Insurance	264	84	527	875
Management fees	0	0	244	244
Miscellaneous	482	122	1,263	1,867
Repairs and maintenance	5,454	3,161	16,682	25,297
Telephone	411	290	486	1,187
Utilities	738	382	2,173	3,293
Total Operating Expenses	21,348	6,936	103,351	131,635
Net Income(Loss) from Operations	(402)	(1,167)	(70,410)	(71,979)
Nonoperating Income(Expense)				
Interest income	1,038	(60)	582	1,560
Total Nonoperating Income(Expense)	1,038	(60)	582	1,560
Change in Net Assets	636	(1,227)	(69,828)	(70,419)
Net Assets - beginning	459,113	132,911	1,377,605	1,969,629
Net Assets - ending	\$ 459,749	\$ 131,684	\$ 1,307,777	\$ 1,899,210

The Notes to the Financial Statements are an Integral part of this Statement

Clearwater River Watershed District
Annandale, Minnesota

Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2007

	Hidden River Maintenance	Rest a while Maintenance	Clearwater Harbor Maintenance	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 19,723	\$ 6,779	\$ 29,126	\$ 55,628
Payments to suppliers	(8,891)	(4,494)	(30,702)	(44,087)
Net Cash provided by operating activities	<u>10,832</u>	<u>2,285</u>	<u>(1,576)</u>	<u>11,541</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>1,038</u>	<u>(60)</u>	<u>582</u>	<u>1,560</u>
Net Cash Increase(Decrease) in cash and investments	11,870	2,225	(994)	13,101
Cash and investments - Beginning	<u>26,847</u>	<u>(2,269)</u>	<u>25,048</u>	<u>49,626</u>
Cash and investments - Ending	<u>\$ 38,717</u>	<u>\$ (44)</u>	<u>\$ 24,054</u>	<u>\$ 62,727</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating net income	\$ (402)	\$ (1,167)	\$ (70,410)	\$ (71,979)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	12,619	2,643	80,512	95,774
Accounts receivable	(1,223)	1,010	(3,815)	(4,028)
Prepaid insurance	(54)	19	(307)	(342)
Accounts payable	(108)	(220)	(7,556)	(7,884)
Net Cash Provided(Used) by Operating Activities	<u>\$ 10,832</u>	<u>\$ 2,285</u>	<u>\$ (1,576)</u>	<u>\$ 11,541</u>

The Notes to the Financial Statements are an Integral part of this Statement

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the District relating to the activities included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication titled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable).

A. Organization and Purpose

The Clearwater River Watershed District was organized under provisions of Minnesota Statutes Chapter 103D. The District is governed by a Board of Managers composed of five members appointed by the counties within the area of the Watershed District boundaries.

The purpose of the District is to conserve the natural resources of the State by land use planning, flood control and other conservation projects by using sound scientific principles for the protection of public health and welfare and the provident use of the natural resources.

B. Financial Reporting Entity

The District is operated by a board composed of five member appointed by the counties inside the Clearwater River Watershed. The board exercises legislative authority and determines all matters of policy. The board appoints personnel responsible for the proper administrative of all affairs relating to the District. As required by accounting principles generally accepted in the United States of America, these financial statements present the District and its component units, entities for which the District is considered to be financially accountable. The criteria for including organizations as component units within the District's reporting entity include whether the organization is legally separate and whether the District holds the corporate powers, whether the District appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the District. Blended component units, although legally separate entities, are, in substance, part of the District's operations and so data from these units are combined with date of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the District. Based on the foregoing criteria as of December 31, 2007, the District had no blended or discretely presented component units.

In conformance with standards established by the Governmental Accounting Standards Board, the District includes all funds and that are controlled by or dependent on the District Board. Control by and dependence on the District were determined on the basis of budget adoption, taxing authority, obligation of the District to finance any deficits that may occur, and any significant subsidy provided by the District.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all nonfiduciary activities of the District. 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, which rely to a significant extent on fees and charges for support.

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

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

D. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current accounting.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The financial transactions of the District are recorded in individual funds. Each fund is accounted by providing a separate set of self-balancing accounts that comprise it assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classifications within the financial statements.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The new model as defined by GASB Statement No. 34 established criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category of the governmental and enterprises combined) for the determination of major funds. The nonmajor funds are combined in a single column in the fund financial statements.

Description of Funds:

Major Funds

General Fund

The General Fund is the main operating fund of the District. The expenditures for all general governmental activities are recorded in the General Fund. The Fund also accounts for the activities of special projects which are funded by property taxes, and for which no other funding sources are available.

Special Revenue Funds

Special Revenue funds account for revenues and expenditures of activities for which the revenue sources are legally restricted for specific purposes. A brief description of the Special Revenue funds maintained by the District in 2007 is as follows:

Operations and Maintenance Fund

The financial activities relating to the maintenance of the original Clearwater Chain of Lakes Restoration Project are recorded in this fund. This is the largest Special Revenue fund maintained by the District. The special assessments levied against lake front properties, are the highest for those lakefront properties located in the lower reaches of the District. The rate gradually drops to zero against lake front properties in the upper reaches of the District.

Clearwater Milfoil Fund

This fund was established for the purpose of providing funding for the control of Eurasian milfoil in Clearwater Lake. This activity is a joint project between the Clearwater River Watershed District and the Clearwater Lake Property owners. The Watershed District levies special assessments against property owners on Clearwater Lake to raise the necessary revenue for the project. Volunteers from the Clearwater Lake Property owners furnish the labor and equipment to spread the chemical to complete the project. This is an annual project.

TMDL Phase II Addendum

The fund was established to account for the expenditures relating to the addendum to the TMDL Phase II Addendum fund. The project area is the Clearwater River from the Grass Lake dam to the Mississippi river at Clearwater. The expenses are primarily engineering costs for monitoring and diagnosis of suspected impairments such as low dissolved oxygen levels or the presence of fecal bacteria.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Description of Funds: (continued)

Capital Projects Fund

Capital Projects funds are used to account for the acquisition or construction of major capital facilities, other than those financed by Enterprise funds. A brief description of the Capital Projects funds maintained by the District is as follows:

Cedar, Albion, Swartout, Henshaw Lake Improvement Fund

The District received a petition from the residents of Cedar Lake asking the District to initiate a project to undertake the measures necessary to improve the quality of water in Cedar Lake. The District has responded by initiating a series of actions. The necessary measures extend beyond the immediate Cedar Lake area. To fund the project the District has levied special assessments against benefited properties.

Proprietary Funds

Enterprise funds are used to account to operations that are financed and operated in manner similar to private business enterprises, where the intent is that the costs of providing services are to be recovered primarily on a user charge basis. Enterprise funds maintained by the District are as follows:

Hidden River Sanitary Sewer Maintenance Fund

This fund accounts for the maintenance costs of the Hidden River Sanitary Sewer system. Property owners are being billed for the sewer service.

Rest a While Sanitary Sewer Maintenance Fund

This fund accounts for the maintenance costs of the Rest a While Sanitary Sewer system. Property owners are being billed for the sewer service.

Clearwater Harbor Sewer Maintenance Fund

This fund accounts for the maintenance costs of the Clearwater Harbor Sanitary Sewer system. Property owners are being billed for the sewer service.

Nonmajor Funds

Special Revenue Funds

Augusta Bog Control Fund

This fund was established to provide funds for the removal of nuisance bogs on Lake Augusta. Revenues are derived from special assessments levied against properties fronting on Lake Augusta.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Description of Funds: (continued)

Clearwater/Grass Bog Control Fund

This fund was established to provide funds for the removal of nuisance bogs on Clearwater and Grass Lakes. Revenues are derived from special assessments levied against properties fronting on Clearwater and Grass Lakes.

Pleasant Lake Outlet Fund

This fund was established to provide fund to build and maintain a second outlet on Pleasant Lake. The second outlet is for the purpose of alleviating occasional flooding on Pleasant Lake. Revenues are derived from special assessments levied against properties on Pleasant Lake.

Data Acquisition Fund

This fund was established for the purpose of providing funds to monitor water quality in the District. Revenues are provided primarily by a special tax levy made every five years, in an amount not to exceed \$50,000. The last tax levy was due in 2011.

Lake Augusta Milfoil Fund

This project operates much the same as the Clearwater Lake Milfoil fund, and is for the purpose of controlling the milfoil infestation on Lake Augusta. Special assessments are levied against property owners on Lake Augusta to raise the necessary funds.

TMDL Phase II

The fund was established to account for the expenditures relating to the addendum to the TMDL Phase II program. The expenditures related primarily to engineering studies of impaired waters in the Clearwater River from the Clear Lake to the Lake Betsy and Lake Louisa. The District must pay the cost of the work as the expenses are incurred. This cost will be reimbursed to the District by the Minnesota Pollution Control Agency.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the District's utility functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include a) charges to customers or applicants for good, services or privileges provided, b) operating grants and contributions and c) capital grants and contributions, including special assessments. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Hidden River Sanitary Sewer Maintenance Fund, Rest a While Sanitary Sewer Maintenance Fund,

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Clearwater Harbor Sewer Maintenance Fund is charges to customers for sales and services. Operating expenses for enterprise funds include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

E. Assets, Liabilities and Net Assets or Equity

1. Deposit and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition. Investments are stated at fair value.

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the Board of Managers. *Minnesota Statutes* require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of the collateral pledged must equal 110% of the deposit not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

The District has adopted a policy to address custodial risk for deposits that matches *Minnesota Statutes* requirement that deposits are collateralized at 110% of excess over FDIC insurance.

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

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

The District has no investment policy in place that addresses interest rate risk, credit risk, concentration risk and custodial credit risk.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

2. Receivables and Payables

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

The District levies its property tax for the subsequent year during the month of December. December 28 is the last day the District can verify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. The property tax is recorded as revenue when it becomes measurable and available. Wright, Stearns and Meeker County are the collecting agencies for the levy and remit the collections to the District three times a year. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment is due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

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

3. Prepaid Items

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

4. Capital Asset

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five years. 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.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

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.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20-50
Land Improvements	05-30
Machinery and Equipment	07-50

5. Fund Equity

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

6. Net Assets

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

F. Use of Estimates

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

G. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District continues to carry commercial insurance or coverage through the League of Minnesota Cities, a public entity risk pool currently operating as a common risk management and insurance program for member cities.

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

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

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

H. **Policy Regarding use of FASB Pronouncements**

The District has adopted paragraph 7 of GASB Statement No. 20. Within this adoption, the District's enterprise funds(s) will apply all FASB pronouncements issued after November 30, 1989, unless the conflict with or contradict GASB pronouncements.

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary Information**

1. The Chairman of the board compiles the budget into an overall preliminary District budget. The Chairman of the board presents the proposed budget to the Board of Managers.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the District sets forth the budgets at the function level for the General and Special Revenue Funds.
4. Budget for the general fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without the District's approval. The Districts may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Budgetary control for Capital Project Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted, or as amended by the District. Budgeted expenditure appropriations lapse at year-end.

B. **Excess Expenditures Over Budget**

Expenditures exceeded appropriations in certain individual fund(s) for the year ended December 31, 2007 as follows:

	Budget	Actual	Excess Expenditures Over Budget
Operations & Maintenance	\$16,700	\$ 27,907	\$11,207
Clearwater Milfoil	37,400	40,478	3,078
TMDL Phase II Addendum	70,000	71,095	1,095
Cedar, Albion, Swartout, Henshaw	50,000	117,383	67,383

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

C. **Deficit Fund Balances**

The following fund(s) had (have) deficit balances at December 31, 2007

Special Revenue Fund:	
TMDL Phase II Addendum	\$23,719
Data Acquisition	1,843

Note 3 DEPOSITS AND INVESTMENTS

Deposits

As of December 31, 2007, the District’s bank balances were not exposed to custodial credit risk because it was fully collateralized with securities held by the pledging financial institution’s trust department or agent and in the District’s name.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of bank failure, the District’s deposits may not be returned to it.

The following is a summary of total of cash and cash equivalents as of December 31, 2007:

Checking	\$137,120
Savings	45,146
Certificate of deposit	30,000
Total	\$212,266

Investments

As of December 31, 2007, the District had the following investments:

	Fair Value	Weighted average maturity (years)	Credit Rating
Certificate of Deposit	\$560,590	1.00	N/A

Interest Rate Risk: The District was not exposed to interest rate risk due to the fact that their investments are not exposed to highly sensitive changes in interest rates.

Credit Rate Risk: The District’s investments are rated in the table.

Concentrations of Credit Risk: The District was not exposed to concentration of credit risk due to the Certificate of Deposits having full coverage by FDIC or pledged collateral.

Custodial Credit Risk: The District was not exposed to custodial credit risk due to the Certificate of Deposits having full coverage by FDIC or pledged collateral.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the 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	\$117,347	\$0	\$0	\$117,347
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 35,400	\$ 0	\$0	\$ 35,400
Capital Assets, being Depreciated:				
Building and system	2,070,541	0	0	2,070,541
Less Accumulated Depreciation for:				
Building and system	(190,864)	(95,774)	0	(286,638)
Total Capital Net Assets, being Depreciated, Net	<u>1,879,677</u>	<u>(95,774)</u>	<u>0</u>	<u>1,783,903</u>
Business-Type Activities Capital Assets, net	<u>\$1,915,077</u>	<u>\$(95,774)</u>	<u>\$0</u>	<u>\$1,819,303</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-Type Activities:	
Hidden River Maintenance	\$12,619
Rest a While Maintenance	2,643
Clearwater Harbor Maintenance	<u>80,512</u>
Total Depreciation Expense – Business-Type Activities	<u>\$95,774</u>

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 5 INTERFUND TRANSFERS

	Transfer In:
	TMDL
	Phase II
Transfer out:	
General Fund	\$22,591

The purpose of the above transfers are to provide funding for capital improvements projects, capital outlay, provide funding for operating purposes and to close funds.

Note 6 COMMITMENTS AND CONTINGENCIES

Buffer Strip Program

In 1997, the District committed a total of \$30,000 for a buffer strip incentive program in Meeker, Stearns and Wright counties. The money is available to participants when the costs are incurred and submitted to the District. The balance available at December 31, 2007 is as follows:

	Initial Commitment	Expenditures to Date	Balance Available
Meeker County	\$10,000	\$8,638	\$ 1,362
Stearns County	10,000	4,070	5,930
Wright County	10,000	9,374	626
Total	\$30,000	\$22,082	\$7,918

Note 7 RELATED PARTY TRANSACTIONS

There were no related party transactions for the year ended December 31, 2007.

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Financial Statements
December 31, 2007

Note 8 NET ASSETS

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because of the District reports all District assets which make up a significant portion to total net assets. Restricted net assets account for the portion of net assets restricted by enabling legislation. Unrestricted net assets are the remaining net assets not included in the two previous categories.

The following is a summary of the components of net assets as of December 31, 2007:

	Governmental Activities	Business-Type Activities
Invested in capital assets, net of related debt		
Land	\$117,347	\$ 35,400
Other capital assets, net of accumulated depreciation	0	1,783,903
Total Invested in Capital Assets	117,347	1,819,303
Unrestricted	661,912	79,907
 Total Net Assets	 \$779,259	 \$ 1,899,210

Governmental fund balances reported on the fund financial statements at December 31, 2007 include the following:

	General Fund	Special Revenue Fund	Capital Projects
Reserved:			
Reserved for lake improvement			\$24,039
Total reserved			24,039
 Unreserved/undesignated	 \$304,604	 \$322,751	 _____
 Total Fund Balances	 \$304,604	 \$322,751	 \$24,039

REQUIRED SUPPLEMENTARY INFORMATION

Clearwater River Watershed District
Annandale, Minnesota

Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Over(Under)
Revenues				
Property taxes	\$ 225,000	\$ 225,000	\$ 229,575	\$ 4,575
MV credit	25,000	25,000	21,138	(3,862)
Miscellaneous income	0	0	2,055	2,055
Interest income	3,200	3,200	8,414	5,214
Total Revenue	<u>253,200</u>	<u>253,200</u>	<u>261,182</u>	<u>7,982</u>
Expenditures				
General Government				
Wages and benefits	7,700	7,700	10,252	2,552
Office supplies	550	550	271	(279)
Accounting	12,500	12,500	17,018	4,518
Audit	3,500	3,500	4,282	782
Engineering fees	15,500	15,500	21,161	5,661
Legal fees	4,000	4,000	951	(3,049)
Management fees	31,000	31,000	26,246	(4,754)
Secretarial services	6,600	6,600	5,235	(1,365)
Other professional services	500	500	0	(500)
Communication	2,000	2,000	1,370	(630)
Transportation	1,200	1,200	1,290	90
Conference registration	900	900	371	(529)
Other travel costs	500	500	0	(500)
Legal notices	3,400	3,400	3,720	320
Advertising	400	400	0	(400)
Printing and binding	1,500	1,500	1,318	(182)
Insurance	5,200	5,200	6,148	948
Rentals	1,450	1,450	1,076	(374)
Miscellaneous	500	500	17	(483)
Dues and suscriptions	3,200	3,200	3,019	(181)
Total General Government	<u>102,100</u>	<u>102,100</u>	<u>103,745</u>	<u>1,645</u>
Advisory Committee				
Supplies	100	100	0	(100)
Management fees	2,400	2,400	0	(2,400)
Transportation	0	0	43	43
Conference registration	300	300	0	(300)
Other travel costs	300	300	0	(300)
Total Advisory Committee	<u>3,100</u>	<u>3,100</u>	<u>43</u>	<u>(3,057)</u>

Clearwater River Watershed District
Annandale, Minnesota

Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Over(Under)
Expenditures - continued				
Filter Strip Program				
Management fees	\$ 1,500	\$ 1,500	\$ 33	\$ (1,467)
Capital improvements	12,500	12,500	3,525	(8,975)
Total Filter Strip Program	<u>14,000</u>	<u>14,000</u>	<u>3,558</u>	<u>(10,442)</u>
Education Program				
Wages and benefits	500	500	364	(136)
Office supplies	300	300	0	(300)
Accounting	300	300	0	(300)
Engineering fees	3,500	3,500	0	(3,500)
Management fees	4,500	4,500	9,734	5,234
Communication	0	0	152	152
Transportation	400	400	230	(170)
Other Travel costs	1,800	1,800	1,167	(633)
Miscellaneous	1,650	1,650	159	(1,491)
Total Education Program	<u>12,950</u>	<u>12,950</u>	<u>11,806</u>	<u>(1,144)</u>
Libbesmeier Land Purchase				
Legal fees	0	0	536	536
Miscellaneous	0	0	91	91
Total Libbesmeier Land Purchase	<u>0</u>	<u>0</u>	<u>627</u>	<u>627</u>
Cedar Lake Study				
Engineering	10,000	10,000	0	(10,000)
Management fees	3,000	3,000	0	(3,000)
Total Cedar Lake Study	<u>13,000</u>	<u>13,000</u>	<u>0</u>	<u>(13,000)</u>
Mark Allison Erosion Project				
Management fees	0	0	911	911
Repairs	0	0	3,556	3,556
Miscellaneous	0	0	175	175
Capital outlay	0	0	1,792	1,792
Total Mark Allison Erosion Project	<u>0</u>	<u>0</u>	<u>6,434</u>	<u>6,434</u>

Clearwater River Watershed District
Annandale, Minnesota

Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Over(Under)
Expenditures - continued				
Other Expenditures				
103rd St Study	\$ 1,000	\$ 1,000	\$ 0	\$ 1,000
145th St Maine Prairie	0	15,600	12,413	3,187
Clearwater/Grass bog removal	550	550	0	(550)
Geislinger/Nistler sed basin	500	500	170	(330)
Miscellaneous	0	0	2,827	2,827
Norton Ave Study	0	4,000	4,531	531
Other special projects	93,600	72,500	0	(72,500)
Plan/Plat review	2,000	2,000	574	(1,426)
TMDL phase II	0	0	0	0
Wandering ponds project	0	1,500	2,311	811
Waste water options	500	500	0	(500)
Watkins storm sewer study	3,500	3,500	0	(3,500)
Website	700	700	2,318	1,618
Total Other Expenditures	<u>102,350</u>	<u>102,350</u>	<u>25,144</u>	<u>(77,206)</u>
 Total Expenditures	 <u>247,500</u>	 <u>247,500</u>	 <u>151,357</u>	 <u>(96,143)</u>
 Excess Revenues Over(Under) Expenditures	 5,700	 5,700	 109,825	 104,125
Other Financing Sources(Uses)				
Operating transfers out	<u>(5,700)</u>	<u>(5,700)</u>	<u>(22,591)</u>	<u>(16,891)</u>
 Net Change in Fund Balance	 <u>\$ 0</u>	 <u>\$ 0</u>	 87,234	 <u>\$ 87,234</u>
 Fund Balance - Beginning			 <u>217,370</u>	
 Fund Balance - Ending			 <u>\$ 304,604</u>	

Clearwater River Watershed District
Annandale, Minnesota

Budgetary Comparison Schedule - Operations and Maintenance Fund
For the Year Ended December 31, 2007

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over(Under)
Revenues			
Special assessments	5,350	7,472	2,122
Miscellaneous income	0	151	151
Interest income	6,000	9,285	3,285
Total Revenue	<u>11,350</u>	<u>16,908</u>	<u>5,558</u>
Expenditures			
Engineering fees	6,000	4,494	(1,506)
Management fees	1,200	1,216	16
Repairs	9,500	21,521	12,021
Miscellaneous	0	676	676
Total Expenditures	<u>16,700</u>	<u>27,907</u>	<u>11,207</u>
Excess Revenues Over(Under) Expenditures	<u>\$ (5,350)</u>	(10,999)	<u>\$ 5,649</u>
Fund Balance - Beginning		<u>272,808</u>	
Fund Balance - Ending		<u>\$ 261,809</u>	

Clearwater River Watershed District
Annandale, Minnesota

Budgetary Comparison Schedule - Clearwater Milfoil Fund
For the Year Ended December 31, 2007

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over(Under)</u>
Revenues			
Special assessments	\$ 21,425	\$ 24,953	\$ 3,528
State DNR grants	9,975	15,106	5,131
Interest income	0	675	675
Total Revenue	<u>31,400</u>	<u>40,734</u>	<u>9,334</u>
Expenditures			
Office supplies	0	115	115
Supplies	36,500	37,732	1,232
Repairs	0	691	691
Accounting	100	282	182
Insurance	500	292	(208)
Miscellaneous	300	1,366	1,066
Total Expenditures	<u>37,400</u>	<u>40,478</u>	<u>3,078</u>
Excess Revenues Over(Under) Expenditures	<u>\$ (6,000)</u>	256	<u>\$ (6,256)</u>
Fund Balance - Beginning		<u>9,128</u>	
Fund Balance - Ending		<u>\$ 9,384</u>	

Clearwater River Watershed District
Annandale, Minnesota

Budgetary Comparison Schedule - TMDL Phase II Addendum
For the Year Ended December 31, 2007

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over(Under)
Revenues			
State grants	\$ 70,000	\$ 47,412	\$ (22,588)
Interest income	<u>0</u>	<u>(36)</u>	<u>(36)</u>
Total Revenue	<u>70,000</u>	<u>47,376</u>	<u>(22,624)</u>
Expenditures			
Engineering fees	70,000	70,970	970
Miscellaneous	<u>0</u>	<u>125</u>	<u>125</u>
Total Expenditures	<u>70,000</u>	<u>71,095</u>	<u>1,095</u>
Excess Revenues Over(Under) Expenditures	<u>\$ 0</u>	(23,719)	<u>\$ (23,719)</u>
Fund Balance - Beginning		<u>0</u>	
Fund Balance - Ending		<u>\$ (23,719)</u>	

Clearwater River Watershed District
Annandale, Minnesota

Budgetary Comparison Schedule - Cedar, Albion, Swartout, Henshaw
For the Year Ended December 31, 2007

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over(Under)</u>
Revenues			
Special assessments	\$ 50,000	\$ 53,489	\$ 3,489
Interest income	0	2,554	2,554
Total Revenue	<u>50,000</u>	<u>56,043</u>	<u>6,043</u>
Expenditures			
Wages and benefits	0	360	360
Supplies	0	373	373
Accounting	0	198	198
Engineering fees	50,000	34,289	(15,711)
Legal fees	0	1,410	1,410
Management fees	0	8,051	8,051
Transportation	0	71	71
Repairs	0	44,244	44,244
Miscellaneous	0	3,232	3,232
Improvements	0	25,155	25,155
Total Expenditures	<u>50,000</u>	<u>117,383</u>	<u>67,383</u>
Excess Revenues Over(Under) Expenditures	<u>\$ 0</u>	(61,340)	<u>\$ (61,340)</u>
Fund Balance - Beginning		<u>85,379</u>	
Fund Balance - Ending		<u>\$ 24,039</u>	

Clearwater River Watershed District
Annandale, Minnesota

Notes to the Required Supplementary Schedules
December 31, 2007

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chairman of the board compiles the budget into an overall preliminary District budget. The Chairman of the board presents the proposed budget to the Board of Managers.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budget for the general fund, special revenue and capital projects are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgeted amounts are as originally adopted, with several amendments by the District's Board; budget expenditures appropriations lapse at year end.

SUPPLEMENTARY INFORMATION

Clearwater River Watershed District
Annandale, Minnesota

Combining Balance Sheet - Nonmajor Governmental Funds
December 31, 2007

	Special Revenue						Total Governmental Funds
	Augusta Bog Control	Clearwater Grass Bog Control	Pleasant Lake Outlet	Data Acquisition	Lake Augusta Milfoil	TMDL Phase II	
ASSETS							
Cash and investments	\$ 5,613	\$ 3,071	\$ 7,073	\$ (1,287)	\$ 9,591	\$ 53,459	\$ 77,520
Property taxes receivable	0	0	0	377	0	0	377
Total Assets	<u>\$ 5,613</u>	<u>\$ 3,071</u>	<u>\$ 7,073</u>	<u>\$ (910)</u>	<u>\$ 9,591</u>	<u>\$ 53,459</u>	<u>\$ 77,897</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 692	\$ 0	\$ 0	\$ 692
Deferred revenue	0	0	0	241	1,687	0	1,928
Total Liabilities	0	0	0	933	1,687	0	2,620
Fund Balances:							
Reserved	5,613	3,071	7,073	(1,843)	7,904	53,459	75,277
Total Liabilities and Fund Balance	<u>\$ 5,613</u>	<u>\$ 3,071</u>	<u>\$ 7,073</u>	<u>\$ (910)</u>	<u>\$ 9,591</u>	<u>\$ 53,459</u>	<u>\$ 77,897</u>

Clearwater River Watershed District
Annandale, Minnesota

Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended December 31, 2007

	Special Revenue						Total Governmental Funds
	Augusta Bog Control	Clearwater Grass Bog Control	Pleasant Lake Outlet	Data Acquisition	Lake Augusta Milfoil	TMDL Phase II	
Revenues							
General Property taxes	\$ 0	\$ 0	\$ 0	\$ 482	\$ 0	\$ 0	\$ 482
Intergovernmental revenue	0	0	0	0	1,494	60,697	62,191
Special assessments	0	0	0	0	3,013	0	3,013
Miscellaneous Income	0	0	0	0	0	24,364	24,364
Interest income	182	100	230	511	272	(449)	846
Total Revenue	<u>182</u>	<u>100</u>	<u>230</u>	<u>993</u>	<u>4,779</u>	<u>84,612</u>	<u>90,896</u>
Expenditures							
Special revenue fund expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>26,765</u>	<u>2,582</u>	<u>48,612</u>	<u>77,959</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>26,765</u>	<u>2,582</u>	<u>48,612</u>	<u>77,959</u>
Excess Revenues Over(Under) Expenditures	<u>182</u>	<u>100</u>	<u>230</u>	<u>(25,772)</u>	<u>2,197</u>	<u>36,000</u>	<u>12,937</u>
Other Financing Sources(Uses)							
Transfer in	0	0	0	0	0	22,591	22,591
Transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources(Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,591</u>	<u>22,591</u>
Net Change in Fund Balance	182	100	230	(25,772)	2,197	58,591	35,528
Fund Balance - Beginning	<u>5,431</u>	<u>2,971</u>	<u>6,843</u>	<u>23,929</u>	<u>5,707</u>	<u>(5,132)</u>	<u>39,749</u>
Fund Balance - Ending	<u><u>\$ 5,613</u></u>	<u><u>\$ 3,071</u></u>	<u><u>\$ 7,073</u></u>	<u><u>\$ (1,843)</u></u>	<u><u>\$ 7,904</u></u>	<u><u>\$ 53,459</u></u>	<u><u>\$ 75,277</u></u>

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Report on Legal Compliance

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

We have audited the general purpose financial statements of Clearwater River Watershed District as of and for the year ended December 31, 2007, and have issued our report thereon dated July 21, 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 Legal Compliance Task Force pursuant to Minn. Stat. 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 that we did not test for compliance in Tax Increment Financing because the District does not have Tax Increment Financing.

The result of our tests indicated that for the items tested, Clearwater River Watershed District, complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the use of the Clearwater River Watershed District, Minnesota and the Office of State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Burkhardt & Burkhardt, Ltd

Burkhardt & Burkhardt, Ltd.
Annandale, Minnesota

July 21, 2008

Report on Internal Control over Financial Reporting

Board of Managers
Clearwater River Watershed District
Annandale, Minnesota

In planning and performing our audit, we considered Clearwater River Watershed District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clearwater River Watershed District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clearwater River Watershed District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We consider the following deficiencies to be significant deficiencies in internal control.

- **Lack of Segregation of Accounting Duties**

The District has a service organization handle its accounting needs, that service organization lacks segregation of accounting duties. Management has determined that this deficiency is not practical to correct.

- **Lack of Control over the Financial Reporting Process**

The District's management lacks the training and knowledge to prepare the financial statements and related notes. Because of this, the financial statements and footnotes are prepared by the auditors.

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 Clearwater River Watershed District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

This report is intended solely for the information and use of the Clearwater River Watershed District and the State of Minnesota. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Burkhardt & Burkhardt, Ltd

Burkhardt & Burkhardt, Ltd
Certified Public Accountants

July 21, 2008