

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT OF THE CITY COUNCIL OF
DEEPHAVEN, MINNESOTA**

For the Year Ended December 31, 2008

Dana Young, City Administrator

**PREPARED BY:
THE DEPARTMENT OF FINANCE**

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CITY OF DEEPHAVEN
Hennepin County, Minnesota

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Hennepin County, Minnesota

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**INTRODUCTORY
SECTION**

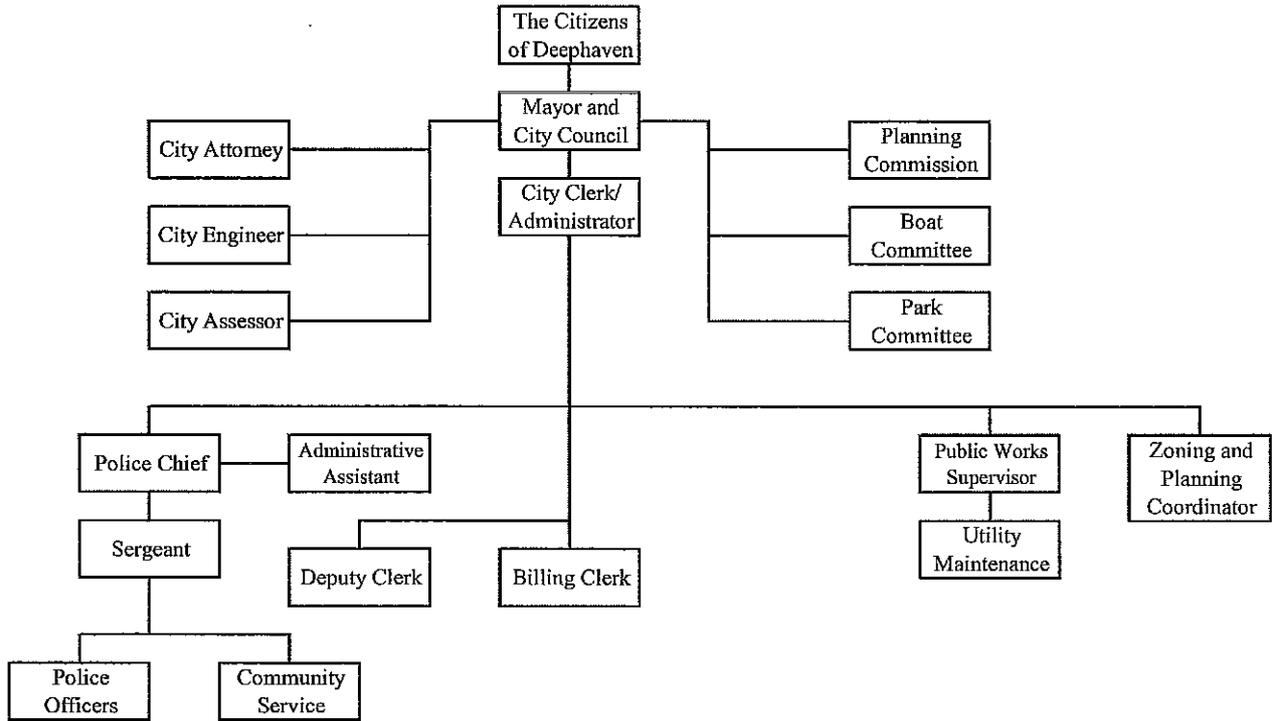
**CITY OF DEEPHAVEN
Hennepin County, Minnesota**

**ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2008**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Paul Skrede	Mayor	December 31, 2010
John Wheaton	Council Member	December 31, 2012
Keith Kask	Council Member	December 31, 2012
Kim Crockett	Council Member	December 31, 2010
Steve Adams	Council Member	December 31, 2010
<u>Administration</u>		
Dana Young	City Administrator/Clerk/Treasurer	Appointed
Cory Johnson	Police Chief	Appointed
Jerry Hudlow	Public Works Supervisor	Appointed

CITY OF DEEPHAVEN
Hennepin County, Minnesota

ORGANIZATION CHART
December 31, 2008



April 10, 2009

To the Honorable Mayor and
Members of the City Council
City of Deephaven
Deephaven, Minnesota

The comprehensive annual financial report of the City of Deephaven, Minnesota, for the year ended December 31, 2008, is hereby submitted for your review. The report was prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board and meets the requirements of the State Auditor's Office.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the City has established internal controls designed to protect the City's assets from loss, theft, or misuse and to provide sufficient reliable information for the preparation of these financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's internal controls have been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. Furthermore, all disclosures necessary to enable the reader to have the maximum understanding of the City's financial activity have been included.

Kern DeWenter Viere, a firm of licensed certified public accountants, has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended December 31, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented on pages 9 & 10 of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found starting on page 11.

Government Profile

The City of Deephaven was incorporated in 1900. It is a western suburb of the Minneapolis/St. Paul area, located in Western Hennepin County. Deephaven covers an area of 2.3 square miles (or 1,440 acres) with an estimated population of 3,774. It is primarily a residential city, with a small commercial area that primarily serves the local community.

One of Deephaven's chief attractions is Lake Minnetonka with its three deep-cut bays. The points and peninsulas overlooking the water provide some of the City's most beautiful home sites, and the lake furnishes endless opportunities for year-round activities. Summer fun is provided at six public beaches and two marinas, which service approximately 302 boats of various sizes. Watercraft range in size from slender canoes to luxurious cruisers and sailboats. Deephaven's recreational areas include public parks, which contain tennis courts, baseball fields, playground equipment, basketball courts and walking trails. Hiking trails and bike paths connect many recreational areas. During the winter, the trails are utilized for cross-country skiing. Deephaven is truly a haven when it comes to recreation and living.

Management of the City is responsible for establishing and maintaining budgetary control designed to ensure that the assets of the government are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund are included in the annual appropriated budget. Project length financial plans are adopted for the Capital Projects Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriate amount) is established by function and activity within an individual fund.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Deephaven operates.

Economic Condition and Outlook

Total permits and residential housing construction value has maintained a consistent level in recent years as shown in the following table:

	<u>Total Permits</u> <u>Number</u>		<u>Value</u>
2008	524	\$	16,664,812
2007	590		13,532,474
2006	622		14,338,000
2005	534		9,384,000
2004	560		10,975,766
2003	605		13,353,874
2002	649		15,889,262

The City has adopted land use plans, zoning ordinances and developed shoreland management plans to ensure orderly growth and quality redevelopment. In 2008, the City completed an update to the Comprehensive Plan, which extends to the year 2020.

All of Deephaven is part of Independent School District No. 276. Deephaven has one elementary school and one private school located within the city limits.

Commercial areas in Deephaven provide a limited range of commercial goods and services. The largest commercial area in the community is Chowen's Corner, which consists mainly of retail shops and offices. A smaller commercial area is located along Trunk Highway 7 and Vine Hill Road.

Major Initiatives

The City of Deephaven prepares a comprehensive Budget annually and also updates its long range plans and forecasts of key financial indicators. The City reviews the following long-range plans prior to preparing its annual budget:

- Capital Improvement Plan
- Five Year Budget Forecast
- Five Year Park Plan
- Five Year Utility Forecast
- City Fiscal Policy

Deephaven, along with four other area municipalities, have established the Excelsior Fire District through a joint powers agreement that provides fire services and emergency medical response to all five communities. The joint powers agreement provides Deephaven with partial ownership of the Excelsior Fire District and the City anticipates increased cost to improve services throughout Deephaven and other municipalities.

The City has developed a web site, which can be assessed at www.cityofdeephaven.org.

Cash Management

The City utilizes interest-bearing checking accounts, money market accounts, certificates of deposit and Government Securities to maximize interest earnings on all funds. The type of account used is dependent upon forecasted cash flow.

We commend Mary Courtney for keeping us abreast of current trends and procedures for cash management and forecasting in order to ensure efficient and profitable use of the City's cash resource. An investment report and analysis is submitted to the City Council on a monthly basis. Cash is invested only as authorized by Minnesota Chapter 118A and through the adoption of the City's annual Investment Policy. Cash balances for all funds of the City are maintained on a combined basis and invested to the greatest extent possible. Earnings from securities are allocated to the various funds in proportion to their relative cash book balances.

Risk Management

The City annually reviews and updates insurance coverage for city-owned property and liability. The City has coverage through the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT reviews with the City its exposure to losses, renewals of coverage, safety programs, periodic inspections and other risk management procedures.

The LMCIT workers' compensation program is a joint self-insurance plan, designed to lower and stabilize city workers' compensation costs. Each participating city deposits with the LMCIT its workers' compensation premium for the policy year. LMCIT's reserves and rates are reviewed annually by an actuary to assure the program remains financially sound.

Awards

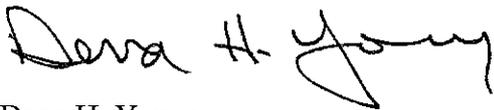
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Deephaven for its comprehensive annual financial report for the fiscal year ended December 31, 2007. This is the 13th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

Acknowledgments

We commend the finance department staff for their hard work and dedication. We want to recognize the firm of Kern DeWenter Viere for their professional assistance. As always, we thank Mayor Skrede and the members of the City Council for your continued interest and support in planning and conducting the financial operations of the City in a very progressive and informed manner.

Respectfully submitted,



Dana H. Young
City Clerk / Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Deephaven
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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FINANCIAL
SECTION



Expert advice. When you need it.SM

INDEPENDENT AUDITOR'S REPORT

April 10, 2009

Honorable Mayor and Members
of the City Council
City of Deephaven
Deephaven, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Deephaven, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, the business-type activities and each major fund of the City of Deephaven, Minnesota, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information identified in the Table of Contents as the Individual Fund Schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information identified in the Table of Contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

As management of the City of Deephaven (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2008.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$ 11,672,734 (total net assets). Of this amount, \$ 3,556,611 (unrestricted total net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- ◆ The City's total net assets increased by \$ 17,331 in comparison with the prior year.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 2,940,298, an increase of \$ 92,505 in comparison with the prior year. This total amount is designated or reserved through legal restrictions and City Council authorization.
- ◆ At the end of the current fiscal year, the unreserved General Fund balance was \$ 2,383,853, which included \$ 104,786 that has been designated for severance and \$ 2,279,067 for working capital. The total General Fund balance was 101% of total 2008 General Fund expenditures.
- ◆ The City's total long-term debt is \$ 104,786. This amount has been designated for accrued compensated absences. In other words, it is an amount that has been designated to pay for 1/3 accrued sick leave that is paid to City employees upon their retirement with the City.
- ◆ The propriety funds have an ending cash balance of \$ 1,183,029. This represents a decrease of \$ 20,100 over the prior year, primarily owing to increased wastewater disposal fees and the cost of lift station maintenance in the Sewer Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) Notes to The Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include General Government, Public Safety, Public Works and Parks Funds. The business-type activities of the City include Sewer, Water, Storm Water, Marina and Recycling Funds.

The government-wide financial statements can be found on pages 23 through 24 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: government funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a city's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statement. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

FUND FINANCIAL STATEMENTS

Governmental Funds (Continued)

The City maintains three individual major governmental funds. Information is presented separately in the governmental Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Capital Improvement Funds and the Park Improvement Fund.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided on pages 57 through 59 for this Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 25 through 29 of this report.

Proprietary Funds

The City maintains five major enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City uses enterprise funds to account for water, sewer, storm sewer, marina and recycling operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 32 through 37 of this report.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 39 through 55 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a city's financial position. In the case of the City, assets exceeded liabilities by \$ 11,672,734 at the close of 2008.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the City's net assets (\$ 7,579,302, or 63%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment) and restricted capital projects less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the City has no outstanding long-term debt that has been used to acquire these assets.

NET ASSETS
(In Thousands)

	Government Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 3,108	\$ 2,986	\$ 1,370	\$ 1,421	\$ 4,478	\$ 4,407
Capital Assets	4,908	4,974	2,671	2,670	7,579	7,644
Total Assets	\$ 8,016	\$ 7,960	\$ 4,041	\$ 4,091	\$ 12,057	\$ 12,051
Other Liabilities	\$ 146	\$ 114	\$ 144	\$ 148	\$ 290	\$ 262
Noncurrent Liabilities	94	133	-	-	94	133
Total Liabilities	\$ 240	\$ 247	\$ 144	\$ 148	\$ 384	\$ 395
NET ASSETS:						
Invested in Capital Assets	\$ 4,908	\$ 4,974	\$ 2,671	\$ 2,670	\$ 7,579	\$ 7,644
Restricted	537	-	-	-	537	-
Unrestricted	2,331	2,739	1,226	1,273	3,557	4,012
Total Net Assets	\$ 7,776	\$ 7,713	\$ 3,897	\$ 3,943	\$ 11,673	\$ 11,656

A portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 3,556,611) may be used to meet the City's ongoing obligations to citizens and creditors. Restricted net assets can be used for the City's various capital projects only.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$ 17,331 during the current fiscal year, resulting from a \$ 62,435 increase in governmental activities and a \$ 45,104 decrease in business-type activities. This is an indication that increases in revenues outgained increases in expenditures in 2008 for governmental activities and utility rates may have to be reviewed, particularly in the Sewer Fund, to ensure they are set at appropriate levels to recover all costs.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

GOVERNMENTAL ACTIVITIES

There was an increase in net assets in 2008 in the amount of \$ 17,331. Key elements of this increase are as follows:

CHANGES IN NET ASSETS
(In Thousands)

	Government Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
REVENUES:						
Charges for Services	\$ 684	\$ 781	\$ 709	\$ 707	\$ 1,393	\$ 1,488
Operating Grants and Contributions	55	58	12	10	67	68
Capital Grants and Contributions	1	9	-	-	1	9
Property Taxes	1,781	1,785	-	-	1,781	1,785
Miscellaneous	51	66	5	7	56	73
Unrestricted Investment Earnings	120	119	58	60	178	179
Total Revenues	<u>2,692</u>	<u>2,818</u>	<u>784</u>	<u>784</u>	<u>3,476</u>	<u>3,602</u>
EXPENSES:						
General Government	505	465	-	-	505	465
Public Safety	1,157	1,139	-	-	1,157	1,139
Public Works	851	837	-	-	851	837
Parks	136	137	-	-	136	137
Other	-	-	-	-	-	-
Sewer	-	-	587	526	587	526
Water	-	-	79	66	79	66
Stormwater	-	-	20	44	20	44
Marina	-	-	100	105	100	105
Recycling	-	-	23	20	23	20
Total Expenses	<u>2,649</u>	<u>2,578</u>	<u>809</u>	<u>761</u>	<u>3,458</u>	<u>3,339</u>
Change in Net Assets Before Transfers	43	240	(25)	23	18	263
Transfers	<u>20</u>	<u>18</u>	<u>(20)</u>	<u>(18)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	63	258	(45)	5	18	263
NET ASSETS:						
Beginning of Year, as Previously Stated	7,713	7,545	3,942	3,848	11,655	11,393
Prior Period Adjustment	-	(90)	-	90	-	-
Beginning of Year, as Restated	<u>7,713</u>	<u>7,455</u>	<u>3,942</u>	<u>3,938</u>	<u>11,655</u>	<u>11,393</u>
End of Year	<u>\$ 7,776</u>	<u>\$ 7,713</u>	<u>\$ 3,897</u>	<u>\$ 3,943</u>	<u>\$ 11,673</u>	<u>\$ 11,656</u>

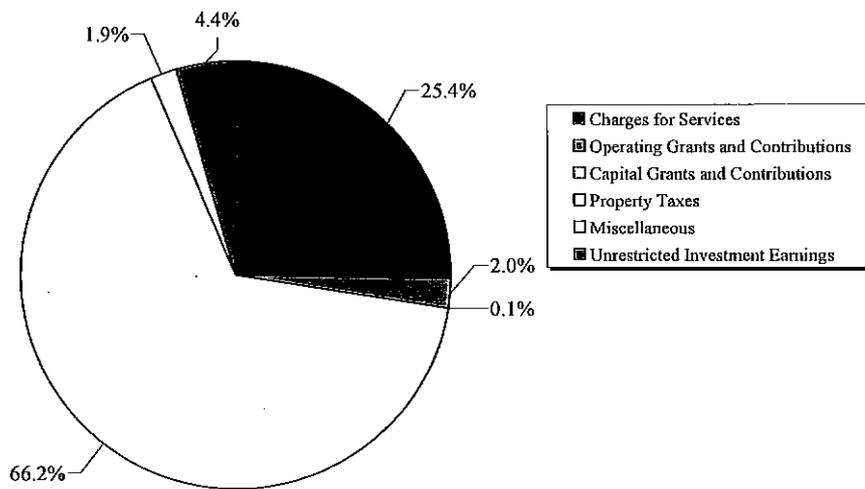
CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

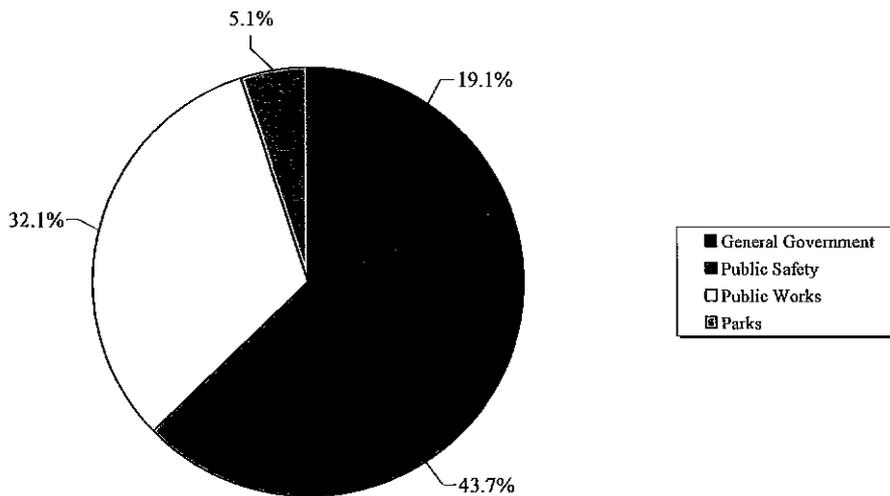
GOVERNMENTAL ACTIVITIES

Below are specific graphs that provide comparisons of the governmental activities revenues and expenses:

Governmental Activities - Revenues



Government Activities Expenses



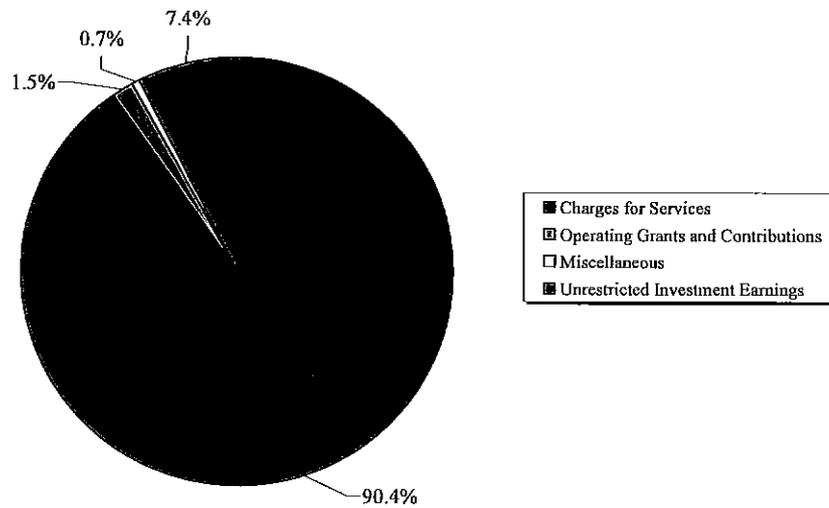
**CITY OF DEEPHAVEN
Hennepin County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008**

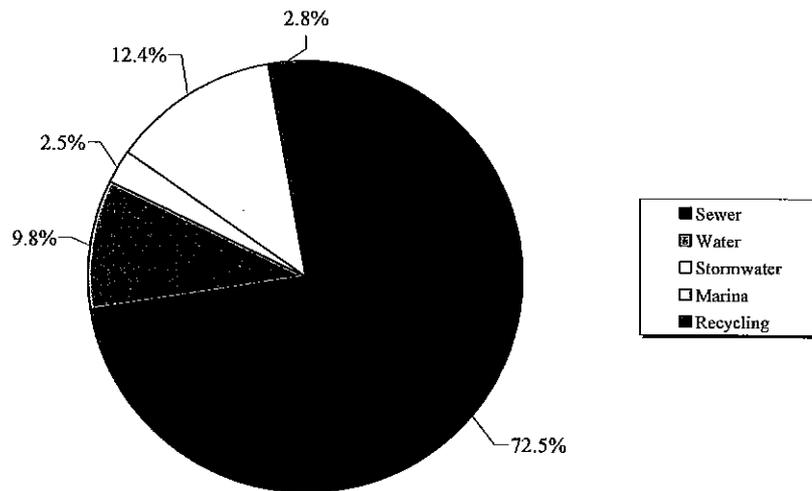
BUSINESS-TYPE ACTIVITIES

Business-type activities decreased net assets by \$ 45,104. Below are graphs showing the business-type activities revenue and expense comparisons:

Business-Type Activities - Revenues



Business-Type Activities - Expenses



CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a city's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 2,940,298. This entire amount is reserved to:

- 1) Provide for ongoing operating costs (\$ 2,279,067)
- 2) Pay severance (\$ 104,786)
- 3) Fund special capital and park projects (\$ 536,821)
- 4) Reserved funds for prepaid assets (\$ 19,624)

The General Fund increased \$ 33,975 over the prior year principally due to five factors:

- 1) Building permit fee activity was greater than expected (\$ 38,817).
- 2) Investment income was higher than anticipated (\$ 3,598).
- 3) Other income, which included the proceeds from the issuance of a revenue note to Minnetonka Youth Hockey Association, came in higher than anticipated (\$ 10,198).
- 4) Police state aid exceeded the 2008 budget estimates (\$ 12,113).
- 5) Contract fees from the City of Woodland were higher than expected (\$ 13,451).

These higher than expected revenues offset four General Fund expenditures, exceeding their budgeted 2008 amounts:

- 1) Legal fees pertaining to the development of a shoreland conservation ordinance (\$ 6,115)
- 2) Engineering fees pertaining to the submittal of a Safe Route to School Grant (\$ 3,530)
- 3) Gasoline prices for both police and public works departments (\$ 13,980)
- 4) Building permit inspection and plan review contract fees (\$ 4,314)
- 5) Street maintenance supplies and contract services (\$ 20,657)

The Capital Improvement Fund balance increased \$ 136,711 over the prior year due to a relatively quiet year in terms of purchasing street and police vehicles and undertaking significant street and park projects.

The Park Improvement Fund balance decreased \$ 78,181 due to an aggressive schedule of capital park improvements including the development of Haralson Park and the reconstruction of a platform tennis court.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Propriety Funds

Business-type activities decreased the City's net assets by \$ 45,104, primarily due to the fact the rates for the Sewer Fund are purposely set at a level to not fully recover the depreciated cost of the system. At this time, management does not expect current rate payers to pay for entire depreciated cost of the sanitary sewer system solely through rates.

From a cash position, business-type activities decreased \$ 20,100 in 2008. Key elements of this decrease were as follows:

- ◆ Water Fund – The cash position of the Water Fund increased \$ 1,234, which is an indication the water rate increase that was enacted back in 2004 continues to be adequate to finance the expenses of operating the water system, especially considering the purchase of remote read water meters in the amount of \$ 18,867 in 2008.
- ◆ Sewer Fund – The cash position of the Sewer Fund increased \$ 8,018 primary due to the lack of significant capital outlays in 2008. It is also an indication that the current sewer rates are adequate to cover operating expenses within the Sewer Fund. Although future anticipated increases in wastewater disposal fees by the Metropolitan Council environmental service may necessitate the need to increase sewer fees within the next couple of years.
- ◆ Recycling Fund – The cash position of the Recycling Fund decreased \$ 9,786. It was anticipated the fund balance would decrease following the reimbursement to Waste Management for conducting the fall cleanup day.
- ◆ Storm Water Fund – The cash position of the Storm Water Fund decreased \$ 42,944 owing to the significant number of capital storm water projects undertaken in 2008.
- ◆ Marina Fund – The cash position of the Marina Fund increased \$ 23,378, due to a rate increase adopted in 2006 to upgrade the City's two marina facilities. A portion of the planned upgrade to the marina facilities was undertaken in 2008 with the remainder of the upgrade earmarked for completion in 2009.

BUDGETARY HIGHLIGHTS

General Fund

There were no changes made to the original budget. During the year, actual revenues exceeded actual expenditures by \$ 33,975, thus eliminating the need to draw upon existing fund reserves.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2008, amounted to \$ 7,579,302 (net of accumulated depreciation). This investment in capital assets included land, land improvements, buildings, vehicles and equipment.

	2008 (In Thousands)		2008 Total	2007 Total
	Governmental Activities	Business-Type Activities		
Land	\$ 692	\$ -	\$ 692	\$ 692
Construction in Progress	10	8	18	15
Building	456	-	456	471
Mains, Lifts, Hydrants and Distribution Systems	-	2,551	2,551	2,575
Improvements Other than Buildings	4	49	53	60
Infrastructure	2,762	-	2,762	2,833
Vehicles and Equipment	984	63	1,047	998
Total	<u>\$ 4,908</u>	<u>\$ 2,671</u>	<u>\$ 7,579</u>	<u>\$ 7,644</u>

Additional information on the City's capital assets can be found in Note 6 of the section entitled Notes to Financial Statements.

Major capital asset events during the current fiscal year included the following:

- ◆ Platform tennis renovation at Haralson Park (\$ 25,550)
- ◆ Development of Haralson Park (\$ 41,802)
- ◆ Police vehicles (\$ 37,135)
- ◆ Two new emergency warning sirens at Village Hall and Thorpe Park (\$ 35,791)
- ◆ St. Louis Bay dock improvements (\$ 23,733)
- ◆ Remote read water meters (\$ 18,867)
- ◆ Police department equipment and furnishings (\$ 18,193)
- ◆ New municipal garage (\$ 33,300)
- ◆ Storm water improvement projects (\$ 73,077)
- ◆ Sanitary sewer main rodding and televising (\$ 29,728)

**CITY OF DEEPHAVEN
Hennepin County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008**

LONG-TERM DEBT

At the end of the current fiscal year, the City had total long-term debt totaling \$ 104,786 for accrued compensated absences. Refer to Note 7 in the financial statements for further information.

ECONOMIC FACTORS AND FUTURE BUDGET PLANS

The City is a fully developed community that must adjust to relatively slow growth in the future market value of the City. With little "new" tax dollars entering the community, the City must grow increasingly careful with the development of future budgets to control future increases in the property tax levy.

This places an increasing burden on the City to increase other revenue opportunities aside from the property tax levy to offset inflationary increases in supplies, employee salaries, health care and professional services.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City Hall, 20225 Cottagewood Road, Deephaven, Minnesota 55331.

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BASIC FINANCIAL STATEMENTS

CITY OF DEEPHAVEN
Hennepin County, Minnesota

STATEMENT OF NET ASSETS
December 31, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments (Including Cash Equivalents)	\$ 3,014,622	\$ 1,183,029	\$ 4,197,651
Receivables:			
Accounts Receivable	23,081	144,299	167,380
Interest Receivable	12,173	-	12,173
Property Taxes Receivable:			
Unremitted	12,124	-	12,124
Delinquent	29,459	-	29,459
Special Assessments Receivable:			
Delinquent	2,803	-	2,803
Deferred	-	9,299	9,299
Internal Balances	(30,000)	30,000	-
Due from Other Governments	24,418	-	24,418
Prepaid Items	19,624	3,100	22,724
Capital Assets not being Depreciated:			
Land	692,177	-	692,177
Construction in Progress	9,880	8,470	18,350
Capital Assets Net of Accumulated Depreciation:			
Buildings	456,416	-	456,416
Mains, Lifts, Hydrants and Distribution Systems	-	2,551,372	2,551,372
Improvements Other than Buildings	3,654	49,203	52,857
Infrastructure	2,762,066	-	2,762,066
Vehicles and Equipment	983,468	62,596	1,046,064
	\$ 8,015,965	\$ 4,041,368	\$ 12,057,333
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts and Contracts Payable	\$ 59,715	\$ 20,064	\$ 79,779
Salaries and Benefits Payable	25,582	2,189	27,771
Due to Other Governments	50,447	5,086	55,533
Unearned Revenue	-	116,730	116,730
Compensated Absences Payable:			
Payable Within One Year	10,479	-	10,479
Payable After One Year	94,307	-	94,307
Total Liabilities	240,530	144,069	384,599
Net Assets:			
Invested in Capital Assets	4,907,661	2,671,641	7,579,302
Restricted for:			
Capital Projects	536,821	-	536,821
Unrestricted	2,330,953	1,225,658	3,556,611
Total Net Assets	7,775,435	3,897,299	11,672,734
	\$ 8,015,965	\$ 4,041,368	\$ 12,057,333

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

CITY OF DEEPHAVEN
Hennepin County, Minnesota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 504,634	\$ 100,468	\$ -	\$ -	\$ (404,166)	\$ -	\$ (404,166)
Public Safety	1,157,123	169,689	49,446	-	(937,988)	-	(937,988)
Public Works	851,220	414,009	-	1,204	(436,007)	-	(436,007)
Park and Recreation	136,025	-	5,490	-	(130,535)	-	(130,535)
Total Governmental Activities	2,649,002	684,166	54,936	1,204	(1,908,696)	-	(1,908,696)
Business-Type Activities:							
Water	79,291	68,563	-	-	-	(10,728)	(10,728)
Sewer	586,727	421,381	-	-	-	(165,346)	(165,346)
Recycling	22,533	10,459	12,098	-	-	24	24
Storm Water	20,496	84,767	-	-	-	64,271	64,271
Marina	99,877	124,156	-	-	-	24,279	24,279
Total Business-Type Activities	808,924	709,326	12,098	-	-	(87,500)	(87,500)
Total Governmental and Business-Type Activities	\$ 3,457,926	\$ 1,393,492	\$ 67,034	\$ 1,204	(1,908,696)	(87,500)	(1,996,196)
General Revenues:							
Property Taxes					1,780,490	-	1,780,490
Unrestricted State Aids					16,673	-	16,673
Unrestricted Investment Earnings					119,490	58,163	177,653
Other General Revenue					34,287	9,125	43,412
Gain (Loss) on Sale of Asset Transfers					-	(4,701)	(4,701)
Total General Revenues and Transfers					20,191	(20,191)	-
Change in Net Assets					1,971,131	42,396	2,013,527
Net Assets - Beginning					62,435	(45,104)	17,331
Net Assets - Ending					7,713,000	3,942,403	11,655,403
					\$ 7,775,435	\$ 3,897,299	\$ 11,672,734

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

MAJOR GOVERNMENTAL FUNDS

CITY OF DEEPHAVEN
Hennepin County, Minnesota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2008

		Capital Projects		
	General Fund	Capital Improvement Fund	Park Improvement Fund	Total Governmental Funds
ASSETS:				
Cash and Investments	\$ 2,444,409	\$ 432,172	\$ 138,041	\$ 3,014,622
Property Taxes Receivable:				
Delinquent	29,459	-	-	29,459
Unremitted	11,036	1,088	-	12,124
Special Assessments Receivable - Deferred	2,803	-	-	2,803
Accounts Receivable	-	23,081	-	23,081
Interest Receivable	12,173	-	-	12,173
Due from Other Governments	24,418	-	-	24,418
Prepaid Items	19,583	-	41	19,624
	<u>\$ 2,543,881</u>	<u>\$ 456,341</u>	<u>\$ 138,082</u>	<u>\$ 3,138,304</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 57,318	\$ 1,233	\$ 1,164	\$ 59,715
Salaries and Benefits Payable	25,582	-	-	25,582
Due to Other Funds	-	30,000	-	30,000
Due to Other Governments	25,283	25,164	-	50,447
Deferred Revenue	32,262	-	-	32,262
Total Liabilities	<u>140,445</u>	<u>56,397</u>	<u>1,164</u>	<u>198,006</u>
Fund Balances:				
Reserved for:				
Prepaid Items	19,583	-	41	19,624
Unreserved, Reported in:				
General Fund - Designated	2,383,853	-	-	2,383,853
Capital Projects - Designated	-	399,944	136,877	536,821
Total Fund Balances	<u>2,403,436</u>	<u>399,944</u>	<u>136,918</u>	<u>2,940,298</u>
Total Liabilities and Fund Balances	<u>\$ 2,543,881</u>	<u>\$ 456,341</u>	<u>\$ 138,082</u>	<u>\$ 3,138,304</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
December 31, 2008

Total Fund Balances - Governmental Funds	\$ 2,940,298
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	7,329,333
Less Accumulated Depreciation	(2,421,672)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Compensated Absences Payable	(104,786)
Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
Taxes	29,459
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred Special Assessments	<u>2,803</u>
Total Net Assets - Governmental Activities	<u><u>\$ 7,775,435</u></u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2008

	General Fund	Capital Projects		Total Governmental Funds
		Capital Improvement Fund	Park Improvement Fund	
REVENUES:				
General Property Taxes and Fiscal Disparities	\$ 1,612,762	\$ 156,420	\$ -	\$ 1,769,182
Special Assessments	4,707	-	-	4,707
Licenses and Permits	226,195	-	-	226,195
Intergovernmental	68,590	283	-	68,873
Charges for Services	314,121	-	-	314,121
Fines	40,785	-	-	40,785
Miscellaneous:				
Investment Income	93,598	16,953	8,939	119,490
Contributions and Donations	50	-	-	50
Franchise Fees	-	92,667	-	92,667
Other	38,914	-	8,457	47,371
Total Revenues	2,399,722	266,323	17,396	2,683,441
EXPENDITURES:				
Current:				
General Government	479,541	-	-	479,541
Public Safety	1,128,643	-	-	1,128,643
Public Works	700,035	-	-	700,035
Parks and Recreation	69,978	-	9,039	79,017
Capital Outlay:				
General Government	6,545	12,096	-	18,641
Public Safety	-	100,652	-	100,652
Public Works	1,337	25,164	-	26,501
Parks and Recreation	-	-	86,538	86,538
Total Expenditures	2,386,079	137,912	95,577	2,619,568
Excess of Revenues Over (Under) Expenditures	13,643	128,411	(78,181)	63,873
OTHER FINANCING SOURCES:				
Proceeds from Sale of Capital Assets	141	8,300	-	8,441
Transfers In	20,191	-	-	20,191
Total Other Financing Sources	20,332	8,300	-	28,632
Net Change in Fund Balances	33,975	136,711	(78,181)	92,505
FUND BALANCES:				
Beginning of Year	2,369,461	263,233	215,099	2,847,793
End of Year	\$ 2,403,436	\$ 399,944	\$ 136,918	\$ 2,940,298

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

CITY OF DEEPHAVEN
Hennepin County, Minnesota

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**
For the Year Ended December 31, 2008

Net Change in Fund Balances - Governmental Funds \$ 92,505

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

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

Capital Outlay	225,295
Depreciation Expense	(276,879)
Book Value of Disposed Assets	(14,984)

Compensated absences are recognized as paid in the governmental funds
but recognized as the expense is incurred in the Statement of Activities. 28,693

Certain receivables will be collected in subsequent years, but are not available
soon enough to pay for the current period's expenditures and, therefore, are
deferred in the funds.

Property Taxes Delinquent	11,308
Special Assessments Deferred	(3,503)

Change in Net Assets - Governmental Activities \$ 62,435

CITY OF DEEPHAVEN
Hennepin County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended December 31, 2008**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES:			
General Property Taxes and Fiscal Disparities	\$ 1,635,344	\$ 1,612,762	\$ (22,582)
Special Assessments	4,257	4,707	450
Licenses and Permits	180,660	226,195	45,535
Intergovernmental	73,703	68,590	(5,113)
Charges for Services	312,601	314,121	1,520
Fines and Forfeitures	38,000	40,785	2,785
Miscellaneous Revenues:			
Investment Income	90,000	93,598	3,598
Contributions and Donations	-	50	50
Other	28,716	38,914	10,198
Total Revenues	<u>2,363,281</u>	<u>2,399,722</u>	<u>36,441</u>
EXPENDITURES:			
Current:			
General Government	478,258	479,541	1,283
Public Safety	1,138,422	1,128,643	(9,779)
Public Works	674,840	700,035	25,195
Park and Recreation	78,625	69,978	(8,647)
Capital Outlay:			
General Government	1,250	6,545	5,295
Public Works	-	1,337	1,337
Total Expenditures	<u>2,371,395</u>	<u>2,386,079</u>	<u>14,684</u>
Excess of Revenues Over (Under) Expenditures	(8,114)	13,643	21,757
OTHER FINANCING SOURCES (USES):			
Proceeds from Sale of Capital Asset	200	141	(59)
Transfers In	20,191	20,191	-
Total Other Financing Sources (Uses)	<u>20,391</u>	<u>20,332</u>	<u>(59)</u>
Net Change in Fund Balances	<u>\$ 12,277</u>	33,975	<u>\$ 21,698</u>
FUND BALANCES:			
Beginning of Year		<u>2,369,461</u>	
End of Year		<u>\$ 2,403,436</u>	

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

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PROPRIETARY FUNDS

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CITY OF DEEPHAVEN
Hennepin County, Minnesota

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2008

	Water	Sewer	Recycling
ASSETS:			
Current Assets:			
Cash and Investments (Including Cash Equivalents)	\$ 115,866	\$ 653,141	\$ 8,379
Special Assessments Receivable:			
Delinquent	-	5,926	3,373
Accounts Receivable	11,639	109,541	-
Due from Other Funds	-	30,000	-
Prepaid Items	63	2,237	-
Total Current Assets	127,568	800,845	11,752
Noncurrent Assets:			
Capital Assets:			
Construction in Progress	-	-	-
Mains, Lifts, Hydrants and Distribution Systems Improvements	736,250	5,799,235	-
Vehicles and Equipment	23,481	25,624	-
Total Capital Assets	759,731	5,824,859	-
Less Accumulated Depreciation	(333,915)	(3,792,135)	-
Net Capital Assets	425,816	2,032,724	-
Total Assets	\$ 553,384	\$ 2,833,569	\$ 11,752
LIABILITIES AND NET ASSETS:			
Current Liabilities:			
Accounts and Contracts Payable	\$ 2,178	\$ 787	\$ 10,076
Salaries and Benefits Payable	67	1,547	-
Due to Other Governments	5,086	-	-
Unearned Revenue	-	-	-
Total Current Liabilities	7,331	2,334	10,076
Net Assets:			
Investment in Capital Assets	425,816	2,032,724	-
Unrestricted	120,237	798,511	1,676
Total Net Assets	546,053	2,831,235	1,676
Total Liabilities and Net Assets	\$ 553,384	\$ 2,833,569	\$ 11,752

<u>Storm Water</u>	<u>Marina</u>	<u>Total</u>
\$ 139,297	\$ 266,346	\$ 1,183,029
-	-	9,299
23,119	-	144,299
-	-	30,000
158	642	3,100
<u>162,574</u>	<u>266,988</u>	<u>1,369,727</u>
-	8,470	8,470
118,323	-	6,653,808
-	107,801	107,801
-	78,814	127,919
<u>118,323</u>	<u>195,085</u>	<u>6,897,998</u>
<u>(2,585)</u>	<u>(97,722)</u>	<u>(4,226,357)</u>
<u>115,738</u>	<u>97,363</u>	<u>2,671,641</u>
<u>\$ 278,312</u>	<u>\$ 364,351</u>	<u>\$ 4,041,368</u>
\$ 6,599	\$ 424	\$ 20,064
173	402	2,189
-	-	5,086
-	116,730	116,730
<u>6,772</u>	<u>117,556</u>	<u>144,069</u>
115,738	97,363	2,671,641
155,802	149,432	1,225,658
<u>271,540</u>	<u>246,795</u>	<u>3,897,299</u>
<u>\$ 278,312</u>	<u>\$ 364,351</u>	<u>\$ 4,041,368</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2008

	Water	Sewer	Recycling
OPERATING REVENUES:			
Charges for Services	\$ 67,335	\$ 407,165	\$ 6,649
Permits, Hookup Fees and Penalties	200	4,629	-
Total Operating Revenues	67,535	411,794	6,649
OPERATING EXPENSES:			
Disposal Charges	-	279,244	-
Water Charges	56,374	-	-
Wages and Benefits	3,397	85,744	1,761
Repairs and Maintenance	1,170	55,155	-
Supplies	835	3,167	720
Utilities	-	7,595	-
Other	1,644	32,367	20,052
Depreciation	15,871	123,455	-
Total Operating Expenses	79,291	586,727	22,533
Operating Income (Loss)	(11,756)	(174,933)	(15,884)
NONOPERATING REVENUES:			
Interest Income	5,621	33,414	86
Special Assessments	1,028	9,587	3,810
Loss on Sale of Asset	-	-	-
Other Income	-	9,125	12,098
Total Nonoperating Revenues	6,649	52,126	15,994
Income (Loss) before Transfers	(5,107)	(122,807)	110
Transfers Out	-	(20,191)	-
Change in Net Assets	(5,107)	(142,998)	110
NET ASSETS:			
Beginning of Year	551,160	2,974,233	1,566
Ending of Year	\$ 546,053	\$ 2,831,235	\$ 1,676

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

<u>Storm Water</u>	<u>Marina</u>	<u>Total</u>
\$ 84,767	\$ 124,156	\$ 690,072
-	-	4,829
<u>84,767</u>	<u>124,156</u>	<u>694,901</u>
-	-	279,244
-	-	56,374
8,381	29,947	129,230
-	995	57,320
1,876	129	6,727
-	328	7,923
7,800	57,196	119,059
2,439	11,282	153,047
<u>20,496</u>	<u>99,877</u>	<u>808,924</u>
64,271	24,279	(114,023)
8,314	10,728	58,163
-	-	14,425
-	(4,701)	(4,701)
-	-	21,223
<u>8,314</u>	<u>6,027</u>	<u>89,110</u>
72,585	30,306	(24,913)
-	-	(20,191)
<u>72,585</u>	<u>30,306</u>	<u>(45,104)</u>
198,955	216,489	3,942,403
<u>\$ 271,540</u>	<u>\$ 246,795</u>	<u>\$ 3,897,299</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2008

	Water	Sewer	Recycling
CASH FLOWS - OPERATING ACTIVITIES:			
Receipts from Customers and Users	\$ 69,561	\$ 411,427	\$ 5,450
Payments to Suppliers	(52,732)	(379,804)	(29,469)
Payments to Employees	(3,377)	(85,540)	(1,761)
Received from Other Sources	-	9,125	12,098
Net Cash Flows - Operating Activities	13,452	(44,792)	(13,682)
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES:			
Payments on Interfund Loan	-	30,000	-
Transfer Out	-	(20,191)	-
Net Cash Flows - Noncapital Financing Activities	-	9,809	-
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from Disposal of Capital Assets	-	-	-
Special Assessments	1,028	9,587	3,810
Acquisition of Capital Assets	(18,867)	-	-
Net Cash Flows - Capital and Related Financing Activities	(17,839)	9,587	3,810
CASH FLOWS - INVESTING ACTIVITIES:			
Interest and Dividends Received	5,621	33,414	86
Net Change in Cash and Cash Equivalents	1,234	8,018	(9,786)
CASH AND CASH EQUIVALENTS:			
Beginning of Year	114,632	645,123	18,165
End of Year	\$ 115,866	\$ 653,141	\$ 8,379
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH - OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ (11,756)	\$ (174,933)	\$ (15,884)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:			
Depreciation Expense	15,871	123,455	-
Accounts Receivable	2,026	746	-
Special Assessments Receivable	-	(1,113)	(1,199)
Prepaid Items	27	132	-
Accounts and Contracts Payable	2,178	(2,408)	(8,697)
Salaries and Benefits Payable	20	204	-
Due to Other Governments	5,086	-	-
Unearned Revenue	-	-	-
Miscellaneous Revenue	-	9,125	12,098
Total Adjustments	25,208	130,141	2,202
Net Cash Flows - Operating Activities	\$ 13,452	\$ (44,792)	\$ (13,682)

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

<u>Storm Water</u>	<u>Marina</u>	<u>Total</u>
\$ 85,159	\$ 126,825	\$ 698,422
(13,401)	(58,369)	(533,775)
(8,335)	(29,828)	(128,841)
-	-	21,223
<u>63,423</u>	<u>38,628</u>	<u>57,029</u>
-	-	30,000
-	-	<u>(20,191)</u>
-	-	<u>9,809</u>
-	15,262	15,262
-	-	14,425
<u>(114,681)</u>	<u>(41,240)</u>	<u>(174,788)</u>
<u>(114,681)</u>	<u>(25,978)</u>	<u>(145,101)</u>
<u>8,314</u>	<u>10,728</u>	<u>58,163</u>
<u>(42,944)</u>	<u>23,378</u>	<u>(20,100)</u>
<u>182,241</u>	<u>242,968</u>	<u>1,203,129</u>
<u>\$ 139,297</u>	<u>\$ 266,346</u>	<u>\$ 1,183,029</u>
\$ 64,271	\$ 24,279	\$ (114,023)
2,439	11,282	153,047
392	-	3,164
-	-	(2,312)
(45)	(39)	75
(3,680)	318	(12,289)
46	119	389
-	-	5,086
-	2,669	2,669
-	-	21,223
<u>(848)</u>	<u>14,349</u>	<u>171,052</u>
<u>\$ 63,423</u>	<u>\$ 38,628</u>	<u>\$ 57,029</u>

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**NOTES TO BASIC
FINANCIAL STATEMENTS**

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Joint Ventures and Jointly Governed Organizations – The relationship of the City with the entity is disclosed.

For the category above, the specific entity is identified as follows:

1. Joint Venture

The City belongs to the Excelsior Fire District (the "District") which is made up of five member cities. The primary purpose of this organization is to provide fire protection services to the member cities. The City has no equity interest in the District as of December 31, 2008. In accordance with Minnesota Statutes, the City retains a commitment to fund a percentage of the unfunded pension liability of the District. The amount, if any, was not available at December 31, 2008.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

1. Joint Venture (Continued)

In connection with the construction of the two fire safety facilities, the Shorewood Economic Development Authority (EDA) has issued three bonds totaling \$ 7,120,000 on behalf of the District and its member cities. All five member cities contribute annually towards the bonded debt payments and will do so until the bond payments end in the year 2023. Annual debt service payments are determined each year based on several factors, including tax capacity.

During the 2008 fiscal year, the City paid \$ 240,193 to the District for fire services provided and \$ 161,804 debt service payments. During 2007, these bonds were refinanced by a crossover refunding bond. To obtain a copy of the Shorewood Economic District contact the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program 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.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Description of Funds:

Major Governmental Funds:

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

Capital Improvement Capital Project Fund – This Fund accounts for revenues and expenditures related to City capital improvements other than specific projects accounted for in other funds.

Park Improvement Capital Project Fund – This Fund accounts for the revenue and expenditures related to City park improvements.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds: (Continued)

Proprietary Funds:

Water Fund – This Fund accounts for the operations of the City’s water services.

Sewer Fund – This Fund accounts for the operations of the City’s sewer services.

Recycling Fund – This Fund accounts for the operations of the City’s recycling services.

Storm Water Fund – This Fund accounts for the operations of the City’s storm water services.

Marina Fund – This Fund accounts for the operations of the City’s marina on Lake Minnetonka.

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

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 City’s public utility funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

Minnesota Statutes require all deposits made by cities with financial institutions to be collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

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

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy states all deposits must be collateralized in compliance with *Minnesota Statutes* 118A.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City should manage its interest rates based on liquidity, safety and the overall return on the investment.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to be in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy lists the allowable investments as government securities, certificates of deposit, repurchase agreements, any general obligation security of the State of Minnesota or any of its municipalities, state-wide investment pool and money market mutual funds.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Deposits and Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The City's investment policy states the City will attempt to diversify its investments according to type and maturity. No more than 30% of the total investment should extend beyond 5 years and the City shall not invest in investments with a maturity exceeding 20 years.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy states when a broker/dealer holds investments purchased by the City in safekeeping, the broker/dealer must provide asset protection of \$ 500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$ 2 million supplemental insurance protection.

2. Receivables and Payables

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

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Hennepin County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half 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 taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

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

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 1,000 and an estimated useful life in excess of three 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.

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

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

<u>Assets</u>	<u>Years</u>
Bridges	40
Mains and Lines	30 - 50
Buildings and Improvements	15 - 50
Streets	15 - 25
Vehicles and Equipment	3 - 25

5. Compensated Absences

Under terms of union contracts and personnel policies, the City's employees are granted vacation in varying amounts depending on length of service and union contract or employee classification. All full-time employees accumulate eight hours of sick leave per month of service. Upon termination, employees are paid for all unused vacation. Any employee who leaves the City under honorable condition is eligible for severance pay. Severance pay is one-third of unused accumulated sick leave.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, the business-type activities or proprietary fund type Statement of Net Assets. Long-term liabilities consist of compensated absences.

In the fund financial statements, governmental fund types recognize noncurrent liabilities to the extent they have matured or will be liquidated with expendable, available financial resources.

7. Fund Equity

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

8. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. 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.

9. Use of Estimates

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

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council adopts an annual budget for all funds. The amounts shown in the financial statements for the General Fund as “budget” represent the original budgeted amount and all revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Administrator/Clerk/Treasurer compiles the budget requests into an overall preliminary City budget.
2. The City Administrator/Clerk/Treasurer presents the proposed budget to the City Council. The budget resolution adopted by the City Council sets forth the budgets at the function level for all of the funds.
3. Formal budgetary integration is employed as a management control device during the year.

The budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriations lapse at year-end. The detailed budget schedule provided in the supplementary information is presented on the same basis. No revisions to the budgets were made during the year.

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

B. Excess of Expenditures Over Appropriations

The actual expenditures exceeded budgeted expenditures in the following Funds:

	<u>Appropriations</u>	<u>Expenditures</u>
General Fund	\$ 2,371,395	\$ 2,386,079
Capital Improvement Fund	82,200	137,912

NOTE 3 – DEPOSITS AND INVESTMENTS

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

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Deposits: As of December 31, 2008, the City’s bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged. The City’s deposits had a book balance as follows:

Checking and Money Market Savings	\$ 608,266
Certificates of Deposit	<u>541,865</u>
 Total Deposits	 <u><u>\$ 1,150,131</u></u>

B. Investments

As of December 31, 2008, the City had the following investments:

Investment Type	Fair Value	Investment Maturities			Ratings
		Less than One Year	1-5 Years	6-10 Years	
Brokered Certificates of Deposit	\$ 3,027,427	\$ 2,353,107	\$ 482,604	\$ 191,716	N/A
FHLMC Note	1,893	-	-	1,893	AAA
Money Market	<u>17,950</u>	<u>17,950</u>	<u>-</u>	<u>-</u>	N/A
 Total	 <u><u>\$ 3,047,270</u></u>	 <u><u>\$ 2,371,057</u></u>	 <u><u>\$ 482,604</u></u>	 <u><u>\$ 193,609</u></u>	
	<u>Maturity</u>		<u>Maximum Investments</u>		
	Less than One Year		78%		
	1-5 Years		16%		
	6-10 Years		6%		

Concentration Credit Risk: The City was not exposed to concentration of credit risk at December 31, 2008, due to the fact none of the City’s investments exceeded 5% of the total City’s investment portfolio. Also, the City does not have more than 30% of their investments invested in securities with a maturity greater than 5 years and no maturities are greater than 10 years.

Custodial Credit Risk Investments: The City was not exposed to custodial credit risk. All deposits and investments were insured or fully collateralized and were registered in the name of the City.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

The following is a summary of deposits and investments as of December 31, 2008:

Deposits (Note 3.A.)	\$ 1,150,131
Investments	3,047,270
Petty Cash	<u>250</u>
Total Deposits and Investments	<u>\$ 4,197,651</u>

Deposits and investments are presented in the December 31, 2008 basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments	
(Including Cash and Cash Equivalents)	<u>\$ 4,197,651</u>

NOTE 4 – INTERFUND TRANSFERS

The following is a summary of the City's transfers for the year ended December 31, 2008:

	<u>Transfer Out</u>
	<u>Sewer</u>
Transfer In:	
General	<u>\$ 20,191</u>

The above transfer was made for the purpose of payments in lieu of taxes.

NOTE 5 – INTERFUND ASSETS/LIABILITIES

A \$ 30,000 interfund loan exists between the Capital Improvement Fund and the Sewer Fund. This loan was for improvements made in the Capital Improvement Fund in 2004 and is being repaid over five years with 3% interest annually. Principal payments of \$ 30,000 were made during 2008.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 692,177	\$ -	\$ -	\$ 692,177
Construction in Progress	-	9,880	-	9,880
Total Capital Assets not being Depreciated	<u>692,177</u>	<u>9,880</u>	<u>-</u>	<u>702,057</u>
Capital Assets being Depreciated:				
Buildings	1,167,607	15,110	-	1,182,717
Improvements Other than Buildings	5,484	-	-	5,484
Infrastructure	3,206,295	25,164	-	3,231,459
Vehicles and Equipment	2,084,766	175,141	52,291	2,207,616
Total Capital Assets being Depreciated	<u>6,464,152</u>	<u>215,415</u>	<u>52,291</u>	<u>6,627,276</u>
Less Accumulated Depreciation for:				
Buildings	696,747	29,554	-	726,301
Improvements Other than Buildings	1,464	366	-	1,830
Infrastructure	373,247	96,146	-	469,393
Vehicles and Equipment	1,110,642	150,813	37,307	1,224,148
Total Accumulated Depreciation	<u>2,182,100</u>	<u>276,879</u>	<u>37,307</u>	<u>2,421,672</u>
Total Capital Assets being Depreciated, Net	<u>4,282,052</u>	<u>(61,464)</u>	<u>14,984</u>	<u>4,205,604</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,974,229</u>	<u>\$ (51,584)</u>	<u>\$ 14,984</u>	<u>\$ 4,907,661</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Construction in Progress	\$ 15,262	\$ 8,470	\$ 15,262	\$ 8,470
Capital Assets being Depreciated:				
Mains, Lifts, Hydrants and Distribution	6,539,127	114,681	-	6,653,808
Improvements Other than Buildings	107,801	-	-	107,801
Vehicles and Equipment	87,991	51,637	11,709	127,919
Total Capital Assets being Depreciated	<u>6,734,919</u>	<u>166,318</u>	<u>11,709</u>	<u>6,889,528</u>
Less Accumulated Depreciation for:				
Mains, Lifts, Hydrants and Distribution	3,963,822	138,614	-	4,102,436
Improvements Other than Buildings	52,156	6,442	-	58,598
Vehicles and Equipment	64,340	7,991	7,008	65,323
Total Accumulated Depreciation	<u>4,080,318</u>	<u>153,047</u>	<u>7,008</u>	<u>4,226,357</u>
Total Capital Assets being Depreciated, Net	<u>2,654,601</u>	<u>13,271</u>	<u>4,701</u>	<u>2,663,171</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,669,863</u>	<u>\$ 21,741</u>	<u>\$ 19,963</u>	<u>\$ 2,671,641</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 – CAPITAL ASSETS

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

Governmental Activities:	
General Government	\$ 17,661
Public Safety	45,732
Public Works	157,001
Park and Recreation	<u>56,485</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 276,879</u>
Business-Type Activities:	
Water	\$ 15,871
Sewer	123,455
Storm Water	2,439
Marina	<u>11,282</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 153,047</u>

NOTE 7 – LONG-TERM DEBT

A. Conduit Debt Obligations

Conduit debt obligations are certain limited obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued revenue bonds to provide funding to private sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2008, the City's outstanding conduit debt balances consisted of the following:

\$ 2,555,000 Minnesota Education Facilities Revenue Note (Excelsior Covenant Preschool Project), Series 2007	\$ 2,319,212
\$ 3,525,000 Minnesota Revenue Note (Minnetonka Youth Hockey Association Project), Series 2008	<u>3,525,000</u>
Total	<u>\$ 5,844,212</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 – LONG-TERM DEBT

B. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 133,479	\$ 96,770	\$ 125,463	\$ 104,786	\$ 10,479

The General Fund typically liquidates the liability related to compensated absences.

NOTE 8 – RESERVED/DESIGNATED FUND BALANCE

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General Fund	Capital Projects		Total
		Capital Improvement Fund	Park Improvement Fund	
Reserved for:				
Prepaid Items	\$ 19,583	\$ -	\$ 41	\$ 19,624
Unreserved:				
Designated for:				
Severance	104,786	-	-	104,786
Working Capital	2,279,067	-	-	2,279,067
Capital Projects	-	399,944	136,877	536,821
Total	<u>\$ 2,403,436</u>	<u>\$ 399,944</u>	<u>\$ 136,918</u>	<u>\$ 2,940,298</u>

NOTE 9 – RISK MANAGEMENT

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

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

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 9 – RISK MANAGEMENT

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience, workers' compensation rates and salaries for the year are known. The final premium adjustment was recorded in the year the adjustment was made.

During the year ended December 31, 2008, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the City's commercial coverage in any of the past three years.

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

PERF members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by social security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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

**CITY OF DEEPHAVEN
Hennepin County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008**

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active Plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

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

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 5.75%, respectively, of their annual covered salary in 2008. Contribution rates in the Coordinated Plan increased in 2008 to 6.0%. PEPFF members were required to contribute 8.6% of their annual covered salary in 2008. That rate will increase to 9.4% in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.5% for Coordinated Plan PERF members and 12.9% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75% and 14.1%, respectively, effective January 1, 2008. The City’s contributions to the PERF for the years ending December 31, 2008, 2007 and 2006 were \$ 35,036, \$ 32,677 and \$ 30,000, respectively. The City’s contributions to the PEPFF for the years ending December 31, 2008, 2007 and 2006 were \$ 55,451, \$ 49,693 and \$ 45,000, respectively. The City’s contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 11 – COMMITMENTS

A. Construction Commitment

The City entered into a contract for construction as follows:

Project	Project Authorization	Work Completed (Expended)	12/31/08 Commitment
Capital Project:			
Municipal Storage Garage	\$ 33,300	\$ 9,880	\$ 23,420
Marina:			
Breakwater Dock	16,940	8,470	8,470
Cruiser Dock	106,500	-	106,500
	<u>156,740</u>	<u>18,350</u>	<u>138,390</u>
Total Construction Commitment	<u>\$ 156,740</u>	<u>\$ 18,350</u>	<u>\$ 138,390</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 11 – COMMITMENTS

B. Legal Claims

The City has legal claims pending at year-end. Although the outcome of these lawsuits is not presently determinable, the City's management believes the City will not incur any material monetary loss resulting from these claims. No loss has been recorded on the City's financial statements relating to these claims.

SUPPLEMENTARY INFORMATION

CITY OF DEEPHAVEN
Hennepin County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended December 31, 2008**

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
REVENUES:			
General Property Taxes and Fiscal Disparities	\$ 1,635,344	\$ 1,612,762	\$ (22,582)
Special Assessments	4,257	4,707	450
Licenses and Permits	180,660	226,195	45,535
Intergovernmental Revenue:			
Local Government Aid	22,602	11,301	(11,301)
Market Value Credit	-	2,871	2,871
PERA Aid	2,501	2,501	-
Post Board Reimbursement	2,500	2,804	304
Police Retirement Aid	37,000	49,113	12,113
Road and Other Aid	9,100	-	(9,100)
Total Intergovernmental Revenue	73,703	68,590	(5,113)
Charges for Services:			
General Government	22,500	18,250	(4,250)
Public Safety	21,094	23,427	2,333
Public Works	6,300	9,505	3,205
City of Greenwood	111,678	95,459	(16,219)
City of Woodland	151,029	164,480	13,451
Other	-	3,000	3,000
Total Charges for Services	312,601	314,121	1,520
Fines and Forfeitures	38,000	40,785	2,785
Miscellaneous Revenues:			
Investment Income	90,000	93,598	3,598
Contributions and Donations	-	50	50
Other	28,716	38,914	10,198
Total Miscellaneous Revenues	118,716	132,562	13,846
Total Revenues	2,363,281	2,399,722	36,441

CITY OF DEEPHAVEN
Hennepin County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL FUND**
For the Year Ended December 31, 2008
(Continued)

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
EXPENDITURES:			
General Government:			
Mayor and Council:			
Personnel Services	\$ 13,950	\$ 13,200	\$ (750)
Benefits	1,068	1,009	(59)
Other Services and Charges	5,700	4,582	(1,118)
Elections:			
Personnel Services	5,640	4,873	(767)
Other Services and Charges	2,570	3,011	441
Administrative and Finance:			
Personnel Services	165,030	168,501	3,471
Benefits	23,352	25,290	1,938
Other Services and Charges	74,060	64,050	(10,010)
Assessing	45,724	45,723	(1)
Auditing Services	16,000	19,850	3,850
Legal Services	3,000	11,003	8,003
Other General Government	122,164	118,449	(3,715)
Capital Outlay	1,250	6,545	5,295
Total General Government	479,508	486,086	6,578
Public Safety:			
Police:			
Personnel Services	497,029	484,637	(12,392)
Benefits	71,211	68,474	(2,737)
Prosecution Services	35,105	36,656	1,551
Other Services and Charges	133,010	136,879	3,869
Fire:			
Other Services and Charges	402,067	401,997	(70)
Total Public Safety	1,138,422	1,128,643	(9,779)
Public Works:			
Engineering Fees	2,000	1,473	(527)
Administration:			
Personnel Services	247,230	251,054	3,824
Benefits	65,518	64,325	(1,193)
Other Services and Charges	52,350	55,499	3,149

CITY OF DEEPHAVEN
Hennepin County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended December 31, 2008
 (Continued)**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
EXPENDITURES:			
Public Works: (Continued)			
Streets:			
Utility Services	\$ 24,500	\$ 26,797	\$ 2,297
Street Repair and Maintenance	60,825	83,211	22,386
Planning and Zoning:			
Personnel Services	77,731	78,323	592
Benefits	21,706	21,010	(696)
Professional Services	105,000	109,314	4,314
Other Services and Charges	17,980	9,029	(8,951)
Capital Outlay	-	1,337	1,337
Total Public Works	<u>674,840</u>	<u>701,372</u>	<u>26,532</u>
Parks and Recreation:			
Wildlife Management	14,775	4,844	(9,931)
Professional Services	37,100	37,633	533
Other	26,750	27,501	751
Total Parks and Recreation	<u>78,625</u>	<u>69,978</u>	<u>(8,647)</u>
Total Expenditures	<u>2,371,395</u>	<u>2,386,079</u>	<u>14,684</u>
Excess of Revenues Over (Under) Expenditures			
	(8,114)	13,643	21,757
OTHER FINANCING SOURCES (USES):			
Proceeds from Sale of Capital Assets	200	141	(59)
Transfers In	20,191	20,191	-
Total Other Financing Sources (Uses)	<u>20,391</u>	<u>20,332</u>	<u>(59)</u>
Net Change in Fund Balances	<u>\$ 12,277</u>	33,975	<u>\$ 21,698</u>
FUND BALANCES:			
Beginning of Year		<u>2,369,461</u>	
End of Year		<u>\$ 2,403,436</u>	

CITY OF DEEPHAVEN
Hennepin County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CAPITAL IMPROVEMENT FUND
For the Year Ended December 31, 2008**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES:			
General Property Taxes and Fiscal Disparities	\$ 160,000	\$ 156,420	\$ (3,580)
Market Value Credit	-	283	283
Miscellaneous Revenues:			
Investment Income	13,500	16,953	3,453
Franchise Fees	91,000	92,667	1,667
Total Miscellaneous Revenues	<u>104,500</u>	<u>109,620</u>	<u>5,120</u>
Total Revenues	<u>264,500</u>	<u>266,323</u>	<u>1,823</u>
 EXPENDITURES:			
General Government:			
Capital Outlay	17,000	12,096	(4,904)
Public Safety:			
Capital Outlay	55,700	100,652	44,952
Public Works:			
Capital Outlay	-	25,164	25,164
Park and Recreation:			
Capital Outlay	9,500	-	(9,500)
Total Expenditures	<u>82,200</u>	<u>137,912</u>	<u>55,712</u>
Excess of Revenues Over (Under) Expenditures	182,300	128,411	(53,889)
 OTHER FINANCING SOURCES (USES):			
Proceeds from Sale of Capital Assets	-	8,300	8,300
Transfers Out	(31,800)	-	31,800
Total Other Financing Sources (Uses)	<u>(31,800)</u>	<u>8,300</u>	<u>40,100</u>
Net Change in Fund Balances	<u>\$ 150,500</u>	136,711	<u>\$ (13,789)</u>
 FUND BALANCES:			
Beginning of Year		<u>263,233</u>	
End of Year		<u>\$ 399,944</u>	

CITY OF DEEPHAVEN
Hennepin County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - PARK IMPROVEMENT FUND
 For the Year Ended December 31, 2008**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
REVENUES:			
Miscellaneous Revenues:			
Investment Income	\$ 3,800	\$ 8,939	\$ 5,139
Other	111,500	8,457	(103,043)
Total Revenues	<u>115,300</u>	<u>17,396</u>	<u>(97,904)</u>
EXPENDITURES:			
Park and Recreation:			
Other	1,540	9,039	7,499
Capital Outlay	94,200	86,538	(7,662)
Total Expenditures	<u>95,740</u>	<u>95,577</u>	<u>(163)</u>
Net Change in Fund Balances	<u>\$ 19,560</u>	<u>(78,181)</u>	<u>\$ (97,741)</u>
FUND BALANCES:			
Beginning of Year		<u>215,099</u>	
End of Year		<u>\$ 136,918</u>	

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Statistical Section

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors tax affecting the City's ability to generate its individual income and sales.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.

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CITY OF DEEPHAVEN
Hennepin County, Minnesota

NET ASSETS BY COMPONENT
Last Five Fiscal Years
(Unaudited)

	Fiscal Year				
	2004	2005	2006	2007	2008
Governmental Activities:					
Invested in Capital Assets	\$ 5,189,044	\$ 5,151,234	\$ 5,059,462	\$ 4,974,229	\$ 4,907,661
Restricted	-	-	-	-	536,821
Unrestricted	2,430,084	2,439,493	2,485,099	2,738,771	2,330,953
Total Governmental Activities					
Net Assets	<u>\$ 7,619,128</u>	<u>\$ 7,590,727</u>	<u>\$ 7,544,561</u>	<u>\$ 7,713,000</u>	<u>\$ 7,775,435</u>
Business-Type Activities:					
Invested in Capital Assets	\$ 2,931,008	\$ 2,799,872	\$ 2,790,472	\$ 2,669,863	\$ 2,671,641
Unrestricted	1,060,947	1,075,162	1,057,152	1,272,540	1,225,658
Total Business-Type Activities					
Net Assets	<u>\$ 3,991,955</u>	<u>\$ 3,875,034</u>	<u>\$ 3,847,624</u>	<u>\$ 3,942,403</u>	<u>\$ 3,897,299</u>
Primary Government:					
Invested in Capital Assets	\$ 8,120,052	\$ 7,951,106	\$ 7,849,934	\$ 7,644,092	\$ 7,579,302
Restricted	-	-	-	-	536,821
Unrestricted	3,491,031	3,514,655	3,542,251	4,011,311	3,556,611
Total Primary Government					
Net Assets	<u>\$ 11,611,083</u>	<u>\$ 11,465,761</u>	<u>\$ 11,392,185</u>	<u>\$ 11,655,403</u>	<u>\$ 11,672,734</u>

The City implemented GASB Statement No. 34 in the year 2004.

Source: City of Deephaven financial records

CITY OF DEEPHAVEN
Hennepin County, Minnesota

Table 2

CHANGES IN NET ASSETS
Last Five Fiscal Years
(Unaudited)

	Fiscal Year				
	2004	2005	2006	2007	2008
EXPENSES:					
Governmental Activities:					
General Government	\$ 395,883	\$ 343,094	\$ 383,642	\$ 465,244	\$ 504,634
Public Safety	977,293	1,019,762	1,069,557	1,138,533	1,157,123
Public Works	678,002	781,727	928,776	836,628	851,220
Park and Recreation	107,325	124,667	135,130	137,179	136,025
Other	122,548	122,548	90,075	-	-
Total Governmental Activities Expenses	<u>2,281,051</u>	<u>2,391,798</u>	<u>2,607,180</u>	<u>2,577,584</u>	<u>2,649,002</u>
Business-Type Activities:					
Sewer	420,715	535,990	619,992	526,404	586,727
Water	55,004	59,110	60,522	65,807	79,291
Storm Water	13,714	31,069	28,216	43,765	20,496
Marina	68,028	81,312	99,097	104,937	99,877
Recycling	-	-	22,457	20,262	22,533
Total Business-Type Activities Expenses	<u>557,461</u>	<u>707,481</u>	<u>830,284</u>	<u>761,175</u>	<u>808,924</u>
Total Primary Government Expenses	<u>\$ 2,838,512</u>	<u>\$ 3,099,279</u>	<u>\$ 3,437,464</u>	<u>\$ 3,338,759</u>	<u>\$ 3,457,926</u>
PROGRAM REVENUES:					
Governmental Activities:					
Charges for Service:					
General Government	\$ 60,914	\$ 467,161	\$ 475,768	\$ 108,290	\$ 100,468
Public Safety	430,695	85,679	66,790	155,222	169,689
Public Works	168,465	7,912	10,227	390,429	414,009
Parks and Recreation	-	-	-	127,053	-
Other	-	99,120	114,448	-	-
Operating Grants and Contributions	64,001	-	74,217	57,922	54,936
Capital Grants and Contributions	36,613	-	-	9,196	1,204
Total Governmental Activities Program Revenue	<u>760,688</u>	<u>659,872</u>	<u>741,450</u>	<u>848,112</u>	<u>740,306</u>
Business-Type Activities:					
Charges for Service:					
Sewer	364,218	362,826	403,820	426,846	421,381
Water	48,997	51,483	58,152	65,807	68,563
Storm Water	17,026	33,388	85,173	85,417	84,767
Marina	96,577	84,923	89,962	118,479	124,156
Recycling	-	-	7,072	10,690	10,459
Operating Grants and Contributions	-	-	-	-	12,098
Capital Grants and Contributions	20,191	13,189	23,347	10,396	-
Total Business-Type Activities Program Revenue	<u>547,009</u>	<u>545,809</u>	<u>667,526</u>	<u>717,635</u>	<u>721,424</u>
Total Primary Government Revenues	<u>\$ 1,307,697</u>	<u>\$ 1,205,681</u>	<u>\$ 1,408,976</u>	<u>\$ 1,565,747</u>	<u>\$ 1,461,730</u>
NET REVENUE (EXPENSE):					
Governmental Activities	\$ (1,520,363)	\$ (1,731,926)	\$ (1,865,730)	\$ (1,729,472)	\$ (1,908,696)
Business-Type Activities	<u>(10,452)</u>	<u>(161,672)</u>	<u>(162,758)</u>	<u>(43,550)</u>	<u>(87,500)</u>
Total Primary Government Net Expense	<u>\$ (1,530,815)</u>	<u>\$ (1,893,598)</u>	<u>\$ (2,028,488)</u>	<u>\$ (1,773,022)</u>	<u>\$ (1,996,196)</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

CHANGES IN NET ASSETS
Last Five Fiscal Years
(Unaudited)

	Fiscal Year				
	2004	2005	2006	2007	2008
GENERAL REVENUES AND OTHER					
CHANGES IN NET ASSETS:					
Governmental Activities:					
Property Tax	\$ 1,387,934	\$ 1,569,335	\$ 1,658,764	\$ 1,784,869	\$ 1,780,490
Unrestricted State Aid	-	-	-	33,675	16,673
Unrestricted Investment Earnings	56,143	63,324	100,814	119,352	119,490
Other General Revenues	51,922	31,837	75,375	31,874	34,287
Transfers	166,569	15,775	(15,389)	18,141	20,191
Total Governmental Activities	<u>1,662,568</u>	<u>1,680,271</u>	<u>1,819,564</u>	<u>1,987,911</u>	<u>1,971,131</u>
Business-Type Activities:					
Unrestricted Investment Earnings	25,795	28,976	46,439	59,692	58,163
Other General Revenues	4,170	-	73,520	6,778	4,424
Transfers	(166,569)	15,775	15,389	(18,141)	(20,191)
Total Business-Type Activities	<u>(136,604)</u>	<u>44,751</u>	<u>135,348</u>	<u>48,329</u>	<u>42,396</u>
Total Primary Government	<u>\$ 1,525,964</u>	<u>\$ 1,725,022</u>	<u>\$ 1,954,912</u>	<u>\$ 2,036,240</u>	<u>\$ 2,013,527</u>
CHANGES IN NET ASSETS:					
Governmental Activities	\$ 142,205	\$ (51,655)	\$ (46,166)	\$ 258,439	\$ 62,435
Business-Type Activities	<u>(147,056)</u>	<u>(116,921)</u>	<u>(27,410)</u>	<u>4,779</u>	<u>(45,104)</u>
Total Primary Government	<u>\$ (4,851)</u>	<u>\$ (168,576)</u>	<u>\$ (73,576)</u>	<u>\$ 263,218</u>	<u>\$ 17,331</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

FUND BALANCES OF GOVERNMENTAL FUNDS
Last 10 Fiscal Years
(Unaudited)

	Fiscal Year				
	1999	2000	2001	2002	2003
GENERAL FUND:					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>1,979,284</u>	<u>2,121,736</u>	<u>2,302,200</u>	<u>2,203,476</u>	<u>2,026,337</u>
Total General Fund	<u>\$ 1,979,284</u>	<u>\$ 2,121,736</u>	<u>\$ 2,302,200</u>	<u>\$ 2,203,476</u>	<u>\$ 2,026,337</u>
ALL OTHER GOVERNMENTAL FUNDS:					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, Reported in:					
Capital Projects Funds	<u>1,604,527</u>	<u>1,338,941</u>	<u>1,410,580</u>	<u>552,599</u>	<u>602,243</u>
Total All Other Governmental Funds	<u>\$ 1,604,527</u>	<u>\$ 1,338,941</u>	<u>\$ 1,410,580</u>	<u>\$ 552,599</u>	<u>\$ 602,243</u>

Table 3

Fiscal Year				
2004	2005	2006	2007	2008
\$ -	\$ -	\$ -	\$ 18,850	\$ 19,583
<u>2,043,475</u>	<u>2,119,084</u>	<u>2,213,499</u>	<u>2,350,611</u>	<u>2,383,853</u>
<u>\$ 2,043,475</u>	<u>\$ 2,119,084</u>	<u>\$ 2,213,499</u>	<u>\$ 2,369,461</u>	<u>\$ 2,403,436</u>
\$ -	\$ -	\$ -	\$ 37	\$ 41
<u>471,167</u>	<u>416,409</u>	<u>392,600</u>	<u>478,295</u>	<u>536,821</u>
<u>\$ 471,167</u>	<u>\$ 416,409</u>	<u>\$ 392,600</u>	<u>\$ 478,332</u>	<u>\$ 536,862</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last 10 Fiscal Years
(Unaudited)

	1999	2000	2001	2002	2003
REVENUES:					
Taxes	\$ 849,922	\$ 868,665	\$ 965,671	\$ 1,200,018	\$ 1,316,725
Special Assessments	-	-	26,320	-	-
Licenses and Permits	214,258	182,143	239,017	258,634	245,957
Intergovernmental	265,265	269,129	287,678	76,733	76,428
Charges for Service	250,293	261,112	343,290	267,684	283,497
Fines and Penalties	86,410	101,765	118,768	80,626	84,714
Franchise Fees	-	-	-	-	-
Interest Income	199,197	225,596	240,661	-	-
Miscellaneous Revenues	67,314	89,393	38,902	1,725,351	225,095
Total Revenues	<u>1,932,659</u>	<u>1,997,803</u>	<u>2,260,307</u>	<u>3,609,046</u>	<u>2,232,416</u>
EXPENDITURES:					
General Government	381,062	448,729	389,024	398,482	397,538
Public Safety	670,324	709,148	713,777	781,336	881,917
Public Works	704,034	634,297	942,970	551,980	564,785
Parks and Recreation	49,826	163,266	60,554	51,667	56,756
Fixed and Other	108,578	296,378	104,980	84,546	78,121
Capital Outlay	303,355	148,508	82,264	2,713,206	396,683
Total Expenditures	<u>2,217,179</u>	<u>2,400,326</u>	<u>2,293,569</u>	<u>4,581,217</u>	<u>2,375,800</u>
OTHER FINANCING SOURCES					
(USES):					
Proceeds from Sale of Capital Asset	-	-	-	-	-
Transfers In	653,000	538,000	832,311	335,466	315,889
Transfers Out	<u>(303,000)</u>	<u>(538,000)</u>	<u>(832,311)</u>	<u>(320,000)</u>	<u>(300,000)</u>
Total Other Financing Sources (Uses)	<u>350,000</u>	<u>-</u>	<u>-</u>	<u>15,466</u>	<u>15,889</u>
Net Change in Fund Balances	<u>\$ 65,480</u>	<u>\$ (402,523)</u>	<u>\$ (33,262)</u>	<u>\$ (956,705)</u>	<u>\$ (127,495)</u>

Table 4

2004	2005	2006	2007	2008
\$ 1,393,045	\$ 1,569,335	\$ 1,658,764	\$ 1,779,718	\$ 1,769,182
38,698	7,888	6,739	2,890	4,707
213,415	205,680	253,754	228,658	226,195
75,087	54,804	74,217	90,137	68,873
292,537	298,599	256,067	283,577	314,121
62,870	56,473	42,964	42,267	40,785
91,252	99,120	114,448	88,479	92,667
56,143	63,324	100,814	119,352	119,490
54,198	26,792	78,636	171,347	47,421
<u>2,277,245</u>	<u>2,382,015</u>	<u>2,586,403</u>	<u>2,806,425</u>	<u>2,683,441</u>
395,300	358,497	347,236	444,895	479,541
942,149	984,121	1,030,852	1,098,381	1,128,643
605,582	611,962	776,365	674,424	700,035
48,617	63,172	68,176	78,537	79,017
122,548	92,846	96,437	-	-
443,556	234,791	181,342	208,623	232,332
<u>2,557,752</u>	<u>2,345,389</u>	<u>2,500,408</u>	<u>2,504,860</u>	<u>2,619,568</u>
-	-	-	11,988	8,441
234,402	18,725	18,211	18,141	20,191
<u>(67,833)</u>	<u>(34,500)</u>	<u>(33,600)</u>	<u>-</u>	<u>-</u>
166,569	(15,775)	(15,389)	30,129	28,632
<u>\$ (113,938)</u>	<u>\$ 20,851</u>	<u>\$ 70,606</u>	<u>\$ 331,694</u>	<u>\$ 92,505</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

TAX CAPACITY AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last 10 Fiscal Years
(Unaudited)

Levy Year	Collection Year	Real Property		Ratio of Tax Capacity to Total Estimated Actual Value	Total City Levy Amounts
		Tax Capacity	Estimated Market Value (1)		
1998	1999	\$ 6,518,002	\$ 420,371,000	1.6%	\$ 1,067,333
1999	2000	6,836,665	451,457,000	1.5%	1,088,774
2000	2001	7,596,444	531,718,300	1.4%	952,043
2001	2002	5,871,354	546,574,900	1.1%	1,210,184
2002	2003	6,514,830	607,420,100	1.1%	1,310,407
2003	2004	7,430,513	686,899,600	1.1%	1,386,722
2004	2005	8,648,000	782,311,000	1.1%	1,583,878
2005	2006	9,892,113	939,884,600	1.1%	1,671,165
2006	2007	11,181,602	995,692,300	1.1%	1,784,344
2007	2008	12,494,365	1,103,467,700	1.1%	1,784,344

(1) Source - Hennepin County

Table 5

Tax Capacity Rates					
<u>General</u> <u>Revenue</u>	<u>Bonds</u>	<u>Total</u> <u>City</u>	<u>Total</u> <u>School (1)</u>	<u>Total</u> <u>County (1)</u>	<u>Total</u>
Tax Capacity Rate per \$ 1,000 of Assessed Value					
12.733	0.000	12.733	69.423	40.994	123.150
12.390	0.000	12.390	59.531	39.817	111.738
12.534	0.000	12.534	47.148	37.679	97.361
20.605	0.000	20.605	20.868	50.789	92.262
20.114	0.000	20.114	24.215	50.607	94.936
18.663	0.000	18.663	23.125	47.324	89.112
18.310	0.000	18.310	21.989	44.172	84.471
16.874	0.000	16.874	22.952	48.801	88.627
15.936	0.000	15.936	24.793	39.129	79.858
14.263	0.000	14.263	17.980	38.571	70.814

CITY OF DEEPHAVEN
Hennepin County, Minnesota

Table 6

PROPERTY TAX LEVIES AND COLLECTIONS ⁽¹⁾
Last 10 Fiscal Years
(Unaudited)

Year Ended December 31,	Total Levy	Collection of of Current Year's Levy (1)	Percentage of Levy Collected	Collection of Prior Year's Levy	Total Collections	Percentage of Total Collections to Levy
1999	\$ 1,067,333	\$ 1,059,962	99.31	8,128	\$ 1,068,090	100.07
2000	1,088,774	1,082,182	99.39	8,235	1,090,417	100.15
2001	1,194,995	1,182,295	98.94	3,602	1,185,897	99.24
2002	1,210,184	1,200,752	99.22	11,510	1,212,262	100.17
2003	1,282,253	1,271,974	99.20	18,052	1,290,026	100.61
2004	1,386,722	1,352,986	97.57	11,129	1,364,115	98.37
2005	1,583,878	1,555,261	98.19	14,005	1,569,266	99.08
2006	1,671,165	1,642,735	98.30	19,292	1,662,027	99.45
2007	1,784,344	1,767,370	99.05	12,348	1,779,718	99.74
2008	1,784,344	1,751,753	98.17	17,429	1,769,182	99.15

(1) Including Fiscal Disparities and Penalties

**CITY OF DEEPHAVEN
Hennepin County, Minnesota**

Table 7

**PRINCIPAL TAXPAYERS
Current Year and Nine Years Ago**

Property ID No.	Type of Business	2008			1999		
		Net Tax Capacity Value	Rank	Percentage of Total Tax Capacity Value	Net Tax Capacity Value	Rank	Percentage of Total Tax Capacity Value
13-117-23-43-0006	Residential	\$ 92,500	1	0.75	\$ 37,675	1	0.58
13-117-23-13-0002	Residential	90,559	2	0.73	36,275	3	0.56
18-117-22-23-0017	Residential	86,150	3	0.70	37,500	2	0.58
13-117-23-42-0003	Residential	71,463	4	0.58			
18-117-22-23-0023	Residential	69,338	5	0.56	22,500	10	0.35
13-117-23-43-0004	Residential	69,338	6	0.56	25,925	8	0.40
13-117-23-42-0010	Residential	67,175	7	0.54	28,250	5	0.43
24-117-23-14-0002	Residential	65,659	8	0.53	26,188	6	0.40
24-117-23-11-0029	Residential	64,850	9	0.53			
23-117-23-41-0015	Residential	60,675	10	0.49			
13-117-23-13-0001	Residential				32,513	4	0.49
13-117-23-42-0009	Residential				26,125	7	0.40
24-117-23-23-0028	Residential				23,575	9	0.36
		<u>\$ 737,707</u>		5.98	<u>\$ 296,526</u>		4.54

CITY OF DEEPHAVEN
Hennepin County, Minnesota

Table 8

SPECIAL ASSESSMENTS LEVIES AND COLLECTIONS
Last 10 Fiscal Years
(Unaudited)

<u>Year Ended December 31,</u>	<u>Total Levied</u>	<u>Collections</u>	<u>Total Outstanding Assessments</u>
1999	\$ 18,867	\$ 22,420	\$ 18,707
2000	18,867	17,549	13,172
2001	18,867	20,271	10,029
2002	21,929	25,423	113,186
2003	48,276	48,778	84,189
2004	47,110	56,828	45,680
2005	41,160	32,479	10,000
2006	10,000	26,365	36,289
2007	17,010	22,744	30,249
2008	22,021	19,132	25,924

CITY OF DEEPHAVEN
Hennepin County, Minnesota

Table 9

DIRECT AND OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT
As of December 31, 2008
(Unaudited)

GOVERNMENTAL UNIT:	Net General Obligation Bonded Debt Outstanding	Estimated Percentage Applicable(1)	Estimated Share of Direct and Overlapping Debt
Direct Debt:			
City of Deephaven	\$ -	100.00 %	\$ -
Overlapping Debt:			
Hennepin County (2)	487,205,000	0.79	3,370,550
Independent School District No. 276, Minnetonka (3)	73,588,733	14.30	9,629,620
Three Rivers Park District (2)	79,355,000	1.04	685,256
Metropolitan Council (2)	7,902,521	0.36	114,462
Metro Transit (2)	108,502,372	0.42	736,974
Hennepin Regional RR Authority (2)	<u>44,900,000</u>	0.79	<u>352,080</u>
Total Direct and Overlapping Debt	<u>\$ 801,453,626</u>		<u>\$ 14,888,942</u>

(1) Based on Percentage of Tax Capacity to Total

(2) Source - Hennepin County

(3) Source - Independent School District No. 276, Minnetonka

CITY OF DEEPHAVEN
Hennepin County, Minnesota

LEGAL DEBT MARGIN INFORMATION
Last 10 Fiscal Years
(Unaudited)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Estimated Market Value	<u>\$ 420,371,000</u>	<u>\$ 451,457,000</u>	<u>\$ 496,648,400</u>	<u>\$ 546,574,900</u>
Debt Limit - 2% of Market Value (1)	\$ 8,407,420	\$ 9,029,140	\$ 9,932,968	\$ 10,931,498
Amount of Debt Applicable to Debt Limit: Net Debt Applicable to Limit	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,481,250</u>
Legal Debt Margin	<u>\$ 8,407,420</u>	<u>\$ 9,029,140</u>	<u>\$ 9,932,968</u>	<u>\$ 9,450,248</u>

(1) *Minnesota Statutes* Section 475.53, Limit on Net Debt. Subdivision 1. Generally, except as otherwise provided in Section 475.51 to 475.75, no municipality, except a school district or a city of the first class, shall incur or be subject to a net debt in excess of 2% of the market value.

Note: Although the annual lease payment to the five district is not considered as debt service, it does apply to the City of Deephaven's debt limit.

Table 10

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>\$ 607,405,800</u>	<u>\$ 686,899,600</u>	<u>\$ 782,311,000</u>	<u>\$ 939,884,600</u>	<u>\$ 995,692,300</u>	<u>\$ 1,103,467,700</u>
\$ 12,148,116	\$ 13,737,992	\$ 15,646,220	\$ 18,797,692	\$ 19,913,846	\$ 22,069,354
<u>1,779,289</u>	<u>1,779,289</u>	<u>1,726,809</u>	<u>1,649,338</u>	<u>1,730,089</u>	<u>1,653,621</u>
<u>\$ 10,368,827</u>	<u>\$ 11,958,703</u>	<u>\$ 13,919,411</u>	<u>\$ 17,148,354</u>	<u>\$ 18,183,757</u>	<u>\$ 20,415,733</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

Table 11

DEMOGRAPHICS AND ECONOMIC STATISTICS
Last 10 Fiscal Years
(Unaudited)

Year	Population (1)	Public School Enrollment (2)	Unemployment Rate (3)	Per Capital Income	Total Personal Income
1999	3,686	650	2.2%	(4)	(4)
2000	3,686	600	2.5%	(4)	(4)
2001	3,853	581	4.7%	(4)	(4)
2002	3,853	575	4.7%	(4)	(4)
2003	3,881	550	4.0%	(4)	(4)
2004	3,855	558	4.4%	(4)	(4)
2005	3,900	516	3.8%	(4)	(4)
2006	3,853	477	3.7%	(4)	(4)
2007	3,767	484	4.3%	(4)	(4)
2008	3,774	432	5.9%	(4)	(4)

(1) Source - Minnesota State Demographer

(2) Source - Minnetonka Public Schools: Estimated Enrollment of Deephaven Elementary School

(3) Figures are for Minneapolis - St. Paul SMSA

(4) Information not Available

CITY OF DEEPHAVEN
Hennepin County, Minnesota

Table 12

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago
(Unaudited)

Employer	Product/Service	2008			1999		
		Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Deephaven Elementary School	Public Education	78	1	29.7 %	70	1	28.7 %
St. Therese Church/School	Religious Church/School	67	2	25.5	59	2	24.2
Streeter & Associates	Building Contractor	45	3	17.1	32	3	13.1
Grace Lutheran Church/School	Religious Church/School	13	6	4.9	22	5	9.0
City of Deephaven	City Government	20	5	7.6	20	6	8.2
Steinier & Koppelman	Building Contractor	18	7	6.8	16	7	6.6
Bagy Jo Incorporated	Custom Embroidery and Clothing	12	8	4.6	15	8	6.1
Kyle Hunt & Partners, Inc.	Building Contractor	10	9	3.8	10	9	4.1
		<u>263</u>		<u>100</u>	<u>244</u>		<u>100</u>

Note: The above includes the largest principal employers of the City. Further information is not available.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

FULL-TIME EQUIVALENTS BY PROGRAM
Last 10 Fiscal Years
(Unaudited)

FUNCTION/PROGRAM:	Full-Time - Equivalent Employees as of December 31,			
	2008	2007	2006	2005
General Government	6	6	6	5.5
Public Safety	7	8	8	8
Public Works	5	5	5	5
Total	18	19	19	18.5

Source: City of Deephaven Administrative Office

Notes: A full-time employee is scheduled to work 40 hours per week. Full-time equivalent employment is calculated by dividing total labor hours by 40.

Table 13

Full-Time - Equivalent Employees as of December 31,					
2004	2003	2002	2001	2000	1999
6	6	6	6	6	6
8	8	8	8	8	8
5	5	5	6	5	5
<u>19</u>	<u>19</u>	<u>19</u>	<u>20</u>	<u>19</u>	<u>19</u>

CITY OF DEEPHAVEN
Hennepin County, Minnesota

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last 10 Fiscal Years
(Unaudited)

FUNCTION/PROGRAM:	Full-Time Equivalent Employees as of December 31,			
	1999	2000	2001	2002
Public Safety:				
Police Stations	1	1	1	1
Police Patrol Units	4	4	4	4
Fire Stations	1	1	1	1
Fire Response Units	7	7	7	7
Public Works:				
Streets (Miles)	32	32	32	32
Traffic Signals	-	-	-	-
Culture and Recreation:				
Parks	6	6	6	6
Campgrounds	1	1	1	1
Beaches	6	6	6	6
Marina:				
Dock Slips	88	88	92	92
Buoys	53	53	53	53
Slides	125	125	125	125
Canoe Racks	32	32	32	32
Utilities:				
Sewer Lift Stations	9	9	9	9

Notes: No capital asset indicators are available for the general government function.

Table 14

Full-Time Equivalent Employees as of December 31,						
2003	2004	2005	2006	2007	2008	
1	1	1	1	1	1	1
4	4	4	4	4	4	4
1	1	1	1	1	1	2
7	7	7	7	7	7	7
32	32	32	32	32	32	32
-	-	-	-	-	-	-
6	6	6	6	6	6	8
1	1	1	1	1	1	1
6	6	6	6	6	6	6
92	92	92	92	92	92	100
53	53	53	53	53	53	53
125	125	125	125	125	125	115
32	32	32	32	32	32	32
9	9	9	9	9	9	9

CITY OF DEEPHAVEN
Hennepin County, Minnesota

Table 15

SCHEDULE OF BUILDING PERMITS AND CONSTRUCTION
Last 10 Fiscal Years
(Unaudited)

Year	Number (1)	Value (1)
1999	690	\$ 10,869,836
2000	593	8,739,501
2001	669	14,067,249
2002	649	15,889,262
2003	605	13,353,874
2004	560	10,975,766
2005	534	9,384,000
2006	622	14,338,000
2007	590	13,532,474
2008	524	16,664,812

(1) Source - Deephaven Planning Department. Permits include building, plumbing, mechanical, electrical and demolition.

Note: Other operating information is not available.

CITY OF DEEPHAVEN
Hennepin County, Minnesota

Table 16

MISCELLANEOUS STATISTICS
December 31, 2008
(Unaudited)

Date of Incorporation	1900
Form of Government	Mayor-Council
Fiscal Year Begins	January 1
Fire Protection	Excelsior Fire District
Police Protection:	
Number of Employees	7
Parks and Recreation:	
Playgrounds	5
Ice Skating Rinks	4
Beaches	6
City Employees (Other than Police):	
Permanent or Regular	12
Education:	
Deephaven is Located in Independent School District No. 276, Minnetonka	
Total School Buildings - Deephaven Elementary	1
Total Students Registered (Approximate)	480
Municipal Water:	
Number of Customers	143
The City Purchases Water from the Municipalities of Minnetonka and Shorewood	
Water Rate per Thousand Gallons	Variable
Municipal Sewer:	
Number of Customers	1,461
The City Sewage Disposal is Through the Metropolitan Waste Control Commission	
Residential Rate	\$ 21.66 per month

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