

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

For the Year Ended December 31, 2005



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

This page was left blank intentionally.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Governmental Funds Balance Sheet and Governmental Activities - Statement of Net Assets	Exhibit 1	9
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities - Statement of Activities	Exhibit 2	11
Statement of Fiduciary Net Assets - Agency Fund	Exhibit 3	12
Notes to the Financial Statements		13
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	28
Operations and Maintenance Special Revenue Fund	Schedule 2	29
Ditch Special Revenue Fund	Schedule 3	30
Notes to the Required Supplementary Information		31
Supplementary Information		
Agency Fund		32
Statement of Changes in Assets and Liabilities	Statement 1	33
Management and Compliance Section		
Schedule of Findings and Recommendations		34
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		37

This page was left blank intentionally.

This page was left blank intentionally.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

**ORGANIZATION
2005**

<u>Board of Managers</u>	<u>Term Expires</u>
Bill MacNally, President	May 2007
Joe Marvin, Vice President	May 2008
Warren Hoffman, Treasurer	May 2007
Ted Capra, Secretary	May 2008
Jeff Knoll	May 2006
<u>District Administrator</u>	
Tim Kelly	Indefinite

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Managers
Coon Creek Watershed District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the Coon Creek Watershed District as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Coon Creek Watershed District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the Coon Creek Watershed District as of December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Coon Creek Watershed District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 7, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

This section of the annual financial report presents our Management's Discussion and Analysis (MD&A) of Coon Creek Watershed District's (District's) financial performance during the fiscal year that ended December 31, 2005.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2005 fiscal year include the following:

- Total net assets are \$579,850. Total assets are \$1,880,627, and total liabilities are \$1,300,777 for the year ended December 31, 2005.
- Overall government-wide revenues totaled \$693,149 and were \$194,909 more than expenses.
- The General Fund's fund balance increased \$213,572, or 86.25 percent, from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts--Independent Auditor's Report; required supplementary information, which includes the MD&A (this section); the basic financial statements; and supplementary information.

This MD&A is intended to serve as an introduction to the basic financial statements. The District's basic financial statements consist of two statements, which combine government-wide financial statements and fund financial statements, and notes to the financial statements. The MD&A (this section) and the budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

The first several columns of each of the first two statements present governmental fund data, which focus on how money flows in and out and the balances left at year-end that are available for spending. These columns are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the last column) in a column of each statement.

The final column in each of the first two statements presents the Statement of Net Assets and the Statement of Activities, which provide information about the activities of the District as a whole and present a longer-term view of finances. These columns tell how these services were financed in the short term as well as what remains for future spending. These columns include all of the assets and liabilities of the District, including long-term activity. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets--the net assets were \$579,850 on December 31, 2005.

	Table 1		
	Net Assets		
	<u>2005</u>	<u>2004</u>	<u>Percent</u> <u>Change (%)</u>
Assets			
Cash and investments	\$ 1,823,523	\$ 1,417,516	28.6
Taxes receivable	17,103	9,312	83.7
Due from other governments	-	10,986	(100.0)
Capital assets, net	<u>40,001</u>	<u>44,062</u>	(9.2)
Total Assets	<u>\$ 1,880,627</u>	<u>\$ 1,481,876</u>	26.9
Liabilities			
Accounts payable	\$ 18,523	\$ 4,020	360.8
Salaries payable	3,268	3,251	0.5
Contracts payable	28,308	14,249	98.7
Due to other governments	52,098	47,816	9.0
Funds held in trust	1,164,240	1,003,166	16.1
Long-term liabilities			
Due in more than one year	<u>34,340</u>	<u>24,433</u>	40.5
Total Liabilities	<u>\$ 1,300,777</u>	<u>\$ 1,096,935</u>	18.6
Net Assets			
Invested in capital assets	\$ 40,001	\$ 44,062	(9.2)
Unrestricted	<u>539,849</u>	<u>340,879</u>	58.4
Total Net Assets	<u>\$ 579,850</u>	<u>\$ 384,941</u>	50.6

Table 2
Change in Net Assets
Governmental Activities

	<u>2005</u>	<u>2004</u>	<u>Percent Change (%)</u>
Revenues			
Program revenues			
Charges for services	\$ 8,902	\$ 3,252	173.7
General revenues			
Property taxes	575,037	273,380	110.3
State aid	67,023	21,418	212.9
Investment income	<u>42,187</u>	<u>15,034</u>	180.6
Total Revenues	\$ 693,149	\$ 313,084	121.4
Expenses			
Program expenses			
Conservation of natural resources	<u>498,240</u>	<u>462,169</u>	7.8
Increase (Decrease) in Net Assets	\$ 194,909	\$ (149,085)	
Net Assets - January 1, 2005	<u>384,941</u>	<u>534,026</u>	(27.9)
Net Assets - December 31, 2005	<u><u>\$ 579,850</u></u>	<u><u>\$ 384,941</u></u>	50.6

CAPITAL ASSETS

As of December 31, 2005, the District had \$40,001 invested in net capital assets. (See Table 3.) This amount represents a net decrease (including additions and deductions) of \$4,061, or 9.2 percent, from last year.

Table 3
Capital Assets at Year-End

	<u>2005</u>	<u>2004</u>
Machinery and equipment	\$ 99,868	\$ 94,553
Less: accumulated depreciation	<u>(59,867)</u>	<u>(50,491)</u>
Net Capital Assets	<u><u>\$ 40,001</u></u>	<u><u>\$ 44,062</u></u>

FINANCIAL ANALYSIS OF THE DISTRICT AT THE FUND LEVEL

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$562,970.

Revenues for the District's governmental funds were \$687,826, while total expenditures were \$484,272.

GENERAL FUND

The General Fund includes the primary operations of the District in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund revenues:

**Table A-4
General Fund Revenues**

Function	Year Ended December 31		Change	
	2005	2004	Increase (Decrease)	Percent (%)
Taxes	\$ 551,455	\$ 257,826	\$ 293,629	113.9
Licenses and permits	904	954	(50)	(5.2)
Intergovernmental	65,455	20,493	44,962	219.4
Charges for services	4,829	1,593	3,236	203.1
Investment income	42,187	15,034	27,153	180.6
Miscellaneous and other	3,164	335	2,829	844.5
Total General Fund Revenues	<u>\$ 667,994</u>	<u>\$ 296,235</u>	<u>\$ 371,759</u>	125.5

Total General Fund revenue increased by \$371,759, or 125.5 percent, from the previous year. The mix of property tax and state-aid can change significantly from year to year. The District's tax levy was increased to support development and the comprehensive plan. An environment of rising interest rates along with the cash generated by the tax levy resulted in increased interest income.

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

Function	Year Ended December 31		Change	
	2005	2004	Increase (Decrease)	Percent (%)
Conservation of natural resources	<u>\$ 454,422</u>	<u>\$ 486,957</u>	<u>\$ (32,535)</u>	(6.7)

General Fund Budgetary Highlights

- Actual revenues were \$42,503 less than expected.
- Actual expenditures were \$91,500 under the budgeted amount.
- No revisions were made to the original adopted budget.

FACTORS BEARING ON THE FUTURE AND NEXT YEAR'S BUDGETS AND RATES

The District relies on property tax levies, authorized by underlying state statutes, for a significant portion of its revenue. Continuing surges in land development projects will likely cause the District's activities and expenditures to increase during the next two to five years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to give a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrator, Tim Kelly, 12301 Central Avenue N.E., Suite 100, Blaine, Minnesota 55434.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

EXHIBIT 1

**GOVERNMENTAL FUNDS BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2005**

	<u>General Fund</u>	<u>Operations and Maintenance</u>	<u>Ditch</u>	<u>Total</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Assets						
Cash and pooled investments	\$ 539,775	\$ 37,191	\$ 82,317	\$ 659,283	\$ -	\$ 659,283
Cash held in trust	1,164,240	-	-	1,164,240	-	1,164,240
Taxes receivable						
Current	5,695	189	-	5,884	-	5,884
Prior	10,808	411	-	11,219	-	11,219
Noncurrent assets						
Capital assets						
Depreciable - net	-	-	-	-	40,001	40,001
Total Assets	<u>\$ 1,720,518</u>	<u>\$ 37,791</u>	<u>\$ 82,317</u>	<u>\$ 1,840,626</u>	<u>\$ 40,001</u>	<u>\$ 1,880,627</u>
Liabilities						
Current liabilities						
Accounts payable	\$ 607	\$ 3,769	\$ 14,147	\$ 18,523	\$ -	\$ 18,523
Salaries payable	3,268	-	-	3,268	-	3,268
Contracts payable	28,308	-	-	28,308	-	28,308
Due to other governments	52,098	-	-	52,098	-	52,098
Deferred revenue - unavailable	10,808	411	-	11,219	(11,219)	-
Funds held in trust	1,164,240	-	-	1,164,240	-	1,164,240
Long-term liabilities						
Due in more than one year	-	-	-	-	34,340	34,340
Total Liabilities	<u>\$ 1,259,329</u>	<u>\$ 4,180</u>	<u>\$ 14,147</u>	<u>\$ 1,277,656</u>	<u>\$ 23,121</u>	<u>\$ 1,300,777</u>
Fund Balance/Net Assets						
Fund Balance						
Unreserved, designated for working capital cash flow	\$ 271,000	\$ -	\$ -	\$ 271,000	\$ (271,000)	
Undesignated	190,189	33,611	68,170	291,970	(291,970)	
Total Fund Balance	<u>\$ 461,189</u>	<u>\$ 33,611</u>	<u>\$ 68,170</u>	<u>\$ 562,970</u>	<u>\$ (562,970)</u>	
Total Liabilities and Fund Balance	<u>\$ 1,720,518</u>	<u>\$ 37,791</u>	<u>\$ 82,317</u>	<u>\$ 1,840,626</u>		
Net Assets						
Invested in capital assets					\$ 40,001	\$ 40,001
Unrestricted					539,849	539,849
Total Net Assets					<u>\$ 579,850</u>	<u>\$ 579,850</u>

The notes to the financial statements are an integral part of this statement.

Page 9

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

EXHIBIT 1
(Continued)

**GOVERNMENTAL FUNDS BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2005**

Reconciliation of the Governmental Fund Balance to Net Assets

Fund Balance - Governmental Fund	\$ 562,970
Capital assets are reported on the statement of net assets but not in the fund balance sheet.	40,001
Long-term liabilities are reported on the statement of net assets but not in the fund balance sheet.	(34,340)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund balance sheet.	<u>11,219</u>
Net Assets - Governmental Activities	<u>\$ 579,850</u>

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

EXHIBIT 2

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General Fund</u>	<u>Operations and Maintenance</u>	<u>Ditch</u>	<u>Total</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Revenues						
Taxes	\$ 551,455	\$ 18,259	\$ -	\$ 569,714	\$ 5,323	\$ 575,037
Special assessments	-	-	5	5	-	5
Licenses and permits	904	-	-	904	-	904
Intergovernmental	65,455	1,568	-	67,023	-	67,023
Charges for services	4,829	-	-	4,829	-	4,829
Investment income	42,187	-	-	42,187	-	42,187
Miscellaneous	3,164	-	-	3,164	-	3,164
Total Revenues	\$ 667,994	\$ 19,827	\$ 5	\$ 687,826	\$ 5,323	\$ 693,149
Expenditures/Expenses						
Current						
Conservation of natural resources	\$ 449,107	\$ 15,703	\$ 14,147	\$ 478,957	\$ 9,907	\$ 488,864
Depreciation	-	-	-	-	9,376	9,376
Capital outlay	5,315	-	-	5,315	(5,315)	-
Total Expenditures/Expenses	\$ 454,422	\$ 15,703	\$ 14,147	\$ 484,272	\$ 13,968	\$ 498,240
Net Change in Fund Balance/Net Assets	\$ 213,572	\$ 4,124	\$ (14,142)	\$ 203,554	\$ (8,645)	\$ 194,909
Fund Balance/Net Assets						
January 1	247,617	29,487	82,312	359,416	25,525	384,941
December 31	\$ 461,189	\$ 33,611	\$ 68,170	\$ 562,970	\$ 16,880	\$ 579,850

Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Net Change in Fund Balance	\$ 203,554
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Expenditures for general capital assets	\$ 5,315
Current year depreciation	(9,376)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
The adjustment is the change in compensated absences payable.	(9,907)
In governmental funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned.	
The adjustment to revenues between the governmental fund statement and the statement of activities is the increase in revenues deferred as unavailable.	5,323
Change in Net Assets of Governmental Activities	\$ 194,909

COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA

EXHIBIT 3

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2005

Assets

Cash and pooled investments	<u>\$ 7,703</u>
-----------------------------	-----------------

Liabilities

Accounts payable	<u>\$ 7,703</u>
------------------	-----------------

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

1. Summary of Significant Accounting Policies

The Coon Creek Watershed District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. Financial Reporting Entity

The Coon Creek Watershed District was organized in 1959 under the provisions of Minn. Stat. ch. 103D; additional powers and duties are contained in Minn. Stat. chs. 103E and 103B.

The purpose of the District is to provide water management within its geographic boundaries. The watershed is 94 square miles in size and includes those lands within the drainage area, or watershed, of Coon Creek. The Creek's drainage involves portions of the communities of Andover, Blaine, Columbus, Coon Rapids, and Ham Lake. The headwaters of the Creek are in the Carlos Avery Wildlife Management Area in Columbus. The Creek flows 17 miles and enters the Mississippi River downstream from the Coon Rapids Dam in Coon Rapids. In addition to existing water problems, the District recognizes the need to prevent flooding and improve water quality. The District complies with the Metropolitan Water Management Act, the intent of which is to prevent water problems by preserving and using natural retention systems.

The District is governed by a Board of Managers composed of five members appointed by the Anoka County Board of Commissioners for three-year terms.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

As required by generally accepted accounting principles, consideration has been given to other organizations that should be included in the District's financial statements for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. There are no organizations that should be presented with the District.

B. Basic Financial Statements

1. Government-Wide Columns

The financial statements combine fund level financial statements and government-wide financial statements (governmental activities column).

The government-wide financial statement columns (the statement of net assets and the statement of activities) display information about the District. These columns include the financial activities of the overall District government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

The governmental activities columns:

- (a) are presented on a consolidated basis; and
- (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Governmental Fund Financial Statement Columns

The governmental fund financial statement columns provide information about the District's funds, excluding its fiduciary funds. Separate statements for fiduciary funds are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Operations and Maintenance Special Revenue Fund is used to account for maintenance and repair work within the District. 1991 Minn. Laws ch. 291, art. 4, § 18, authorized the District to levy not more than \$30,000 annually for these purposes.

The Ditch Special Revenue Fund is used to account for maintenance activities, together with related funding, for ditches within the District.

3. Fiduciary Funds

The District also reports the following fund type:

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the District holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The governmental activities columns and the fiduciary fund financial statement are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 columns 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. The District considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the District through Anoka County for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2005, based on market prices. Because of the relatively small balances of the other funds, all investment earnings are credited to the General Fund. Pooled investment earnings for 2005 were \$42,187.

Through Anoka County, Coon Creek Watershed District invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the District's position in the pool is the same as the value of the pool shares.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Property Taxes and Special Assessments

An ad valorem property tax may be levied against all properties in the District with levy limits prescribed by state statute. Property tax levies must be approved by the District Board and certified to the Anoka County Auditor in October of each year for collection in the following year. Taxes are payable to the County in two installments by May 15 and October 15.

Special assessment levies may be approved by the District Board for maintenance and construction purposes in accordance with state statutes. These assessments are charged against those properties benefiting from the maintenance and construction. Special assessments must be certified to the County Auditor in a manner similar to property taxes.

Property taxes and special assessments receivable consist of amounts certified to Anoka County but not yet collected. Special assessments receivable are recorded when the full levy amount is submitted to the County, though actual assessment against property owners may occur over several years.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$250 or more 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District are depreciated using the straight-line method over the estimated useful lives ranging from 3 to 20 years.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Flexible Time Off, Extended Medical Benefits, and Personal Conversion Accounts

The District's employees' vacation and sick time was converted to flexible time off (FTO), extended medical benefits (EMB), and personal conversion account (PCA) hours as part of the October 2001 implementation of the Anoka County Preferred Benefit Plan, which the Coon Creek Watershed District elected to follow.

Vacation hours were converted to FTO hours and are vested. The amount of FTO hours a full-time employee earns ranges from 24 to 33 days per year depending on years of service performed. Part-time employees are prorated based on their scheduled hours and years of service.

The unvested sick leave hours were converted to EMB hours. These hours are not vested and are valued at \$27,131 at December 31, 2005. EMB hours are available for use in times of illness, after using 40 FTO or leave without pay hours. Full-time employees accrue eight days of EMB per year, and part-time employees receive a prorated amount based on their schedule.

5. Deferred Revenue

All District funds and the governmental activities defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

6. Fund Equity

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

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The District's Board of Managers adopts estimated revenue and expenditure budgets for the General Fund and the Operations and Maintenance and Ditch Special Revenue Funds.

The budgets may be amended or modified at any time by the Board. Comparisons of estimated revenues and expenditures to actual are presented as required supplementary information for the General Fund and budgeted special revenue funds. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

B. Excess of Expenditures Over Budget

No individual fund had expenditures in excess of budget for the year ended December 31, 2005. Comparisons of budget to actual results can be found in Schedules 1, 2, and 3.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the District's total cash and investments to the basic financial statements follows:

Statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 659,283
Cash held in trust	1,164,240
Statement of fiduciary net assets	
Cash and pooled investments	<u>7,703</u>
 Total Cash and Investments	 <u>\$ 1,831,226</u>

a. Deposits

Cash transactions are administered by Anoka County who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to designate depositories for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2005, the District had no deposits.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District does not have additional policies for the investment risks, described below, beyond complying with the requirements of Minnesota statutes.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2005, none of the District's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. At December 31, 2005, the District held \$1,831,226 in a pooled investment fund (MAGIC Fund).

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. At December 31, 2005, none of the District's investments were subject to interest rate risk.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At December 31, 2005, none of the District's investments were subject to credit risk.

2. Receivables

The District has no receivables scheduled to be collected beyond one year, except for delinquent taxes receivable.

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Machinery and equipment	\$ 94,553	\$ 5,315	\$ -	\$ 99,868
Less: accumulated depreciation for				
Machinery and equipment	<u>(50,491)</u>	<u>(9,376)</u>	<u>-</u>	<u>(59,867)</u>
Total Capital Assets Depreciated, Net	<u>\$ 44,062</u>	<u>\$ (4,061)</u>	<u>\$ -</u>	<u>\$ 40,001</u>

Depreciation expense of \$9,376 was charged to the District's conservation of natural resources function.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities	Fiduciary Fund
Accounts	\$ 18,523	\$ 7,703
Salaries	3,268	-
Contracts	28,308	-
Due to other governments	52,098	-
Total Payables	\$ 102,197	\$ 7,703

2. Deferred Revenue

Deferred revenue consists of taxes receivable that are not collected soon enough after year-end to pay liabilities of the current period. Deferred revenue at December 31, 2005, is summarized below by fund:

	Taxes
Governmental Funds	
General	\$ 10,808
Operations and Maintenance	411
Total	\$ 11,219

3. Long-Term Debt - Compensated Absences

District employees are granted flexible time off (FTO) in varying amounts depending on length of service. All employees accumulate extended medical benefits. Unused, accumulated FTO is paid to employees upon termination. The amount payable at December 31, 2005, is \$34,340, which is an increase of \$9,907 from the payable of \$24,433 at December 31, 2004.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Funds Held in Trust

Funds held in trust at December 31, 2005, consist of the following:

Developer deposits	\$ 1,164,240
--------------------	--------------

5. Operating Leases

The District entered into an operating lease for office space beginning June 1, 2000, and terminating on May 31, 2005. The operating lease was subsequently extended until May 31, 2008. The District made lease payments totaling \$13,304 on this lease for the year ended December 31, 2005.

The District entered into an operating lease for a copier beginning April 1, 2003, and terminating on March 31, 2007. The District made lease payments totaling \$2,415 on this lease for the year ended December 31, 2005.

Future minimum lease payments under the operating leases consist of the following at December 31, 2005:

Fiscal Year	Space	Copier	Total
2006	\$ 13,584	\$ 2,415	\$ 15,999
2007	13,584	604	14,188
2008	5,660	-	5,660
Total	\$ 32,828	\$ 3,019	\$ 35,847

4. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Coon Creek Watershed District are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The 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 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.

Two methods are used to compute benefits for 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 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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 public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. The District is required to contribute the following percentages of annual covered payroll:

In 2005	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

The District's contributions for the years ending December 31, 2005, 2004, and 2003, were \$8,347, \$8,249, and \$8,024, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. The District is self-insured, in part, for losses related to destruction of assets. The District carries commercial insurance for all other forms of risk. There were no significant reductions for the year ended December 31, 2005, in insurance coverage for any major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the past three years.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 604,040	\$ 604,040	\$ 551,455	\$ (52,585)
Licenses and permits	1,560	1,560	904	(656)
Intergovernmental	55,674	55,674	65,455	9,781
Charges for services	34,663	34,663	4,829	(29,834)
Investment income	14,560	14,560	42,187	27,627
Miscellaneous	-	-	3,164	3,164
Total Revenues	\$ 710,497	\$ 710,497	\$ 667,994	\$ (42,503)
Expenditures				
Current				
Conservation of natural resources				
Personal services	\$ 188,317	\$ 188,317	\$ 193,258	\$ (4,941)
Contractual services	152,104	152,104	191,279	(39,175)
Other services and charges	178,236	178,236	64,570	113,666
Capital outlay	27,265	27,265	5,315	21,950
Total Expenditures	\$ 545,922	\$ 545,922	\$ 454,422	\$ 91,500
Net Change in Fund Balance	\$ 164,575	\$ 164,575	\$ 213,572	\$ 48,997
Fund Balance - January 1	247,617	247,617	247,617	-
Fund Balance - December 31	\$ 412,192	\$ 412,192	\$ 461,189	\$ 48,997

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
OPERATIONS AND MAINTENANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 20,000	\$ 20,000	\$ 18,259	\$ (1,741)
Intergovernmental	1,568	1,568	1,568	-
Total Revenues	\$ 21,568	\$ 21,568	\$ 19,827	\$ (1,741)
Expenditures				
Current				
Conservation of natural resources				
Other services and charges	50,000	50,000	15,703	34,297
Net Change in Fund Balance	\$ (28,432)	\$ (28,432)	\$ 4,124	\$ 32,556
Fund Balance - January 1	29,487	29,487	29,487	-
Fund Balance - December 31	<u>\$ 1,055</u>	<u>\$ 1,055</u>	<u>\$ 33,611</u>	<u>\$ 32,556</u>

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ -	\$ -	\$ 5	\$ 5
Expenditures				
Current				
Conservation of natural resources				
Other services and charges	179,174	179,174	14,147	165,027
Net Change in Fund Balance	\$ (179,174)	\$ (179,174)	\$ (14,142)	\$ 165,032
Fund Balance - January 1	82,312	82,312	82,312	-
Fund Balance - December 31	<u>\$ (96,862)</u>	<u>\$ (96,862)</u>	<u>\$ 68,170</u>	<u>\$ 165,032</u>

This page was left blank intentionally.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

On or before mid-June of each year, the District Manager prepares a draft budget for the upcoming fiscal year. Before August 31, the proposed budget is presented to the District Board for review. The Board holds public hearings and a final budget must be prepared and adopted no later than September 30.

The appropriated budget is prepared by fund and function. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the function level.

Encumbrance accounting is employed in governmental funds. Encumbrances (such as purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

The District had no funds with expenditures in excess of budget for the year ended December 31, 2005.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

AGENCY FUND

Crooked Lake Agency Fund - This fund is used to account for funds received and disbursed on behalf of the Crooked Lake Association.

This page was left blank intentionally.

COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA

Statement 1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CROOKED LAKE AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>Assets</u>				
Cash and pooled investments	<u>\$ 7,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,703</u>
<u>Liabilities</u>				
Accounts payable	<u>\$ 7,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,703</u>

This page was left blank intentionally.

This page was left blank intentionally.

**COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

01-2 Accounting for Escrow Accounts

We found differences in cash balances between the detailed records of the escrow accounts and the general ledger control account; at December 31, 2005, the difference was \$4,327. We believe this may be occurring because some of the individual accounts are not kept current. Given the large number of accounts maintained by the Coon Creek Watershed District, it is important that the accounting records are accurate and reconcilable with the general ledger control account.

We again recommend the District improve the accounting practices applied to its escrow accounts. We further recommend the District reconcile its accounts to the general ledger. This may require assistance from the Anoka County Finance Department.

Client's Response:

We agree and wish to note that the District is in the process of instituting a new time accounting system which should allow claims on escrow accounts to be more current.

04-1 Retirement of Capital Assets

Numerous capital assets that have been fully depreciated for many years remain in the District's schedule of capital assets despite appearing to be obsolete. For example, a Northgate computer purchased for \$3,073 in 1990 and fully depreciated 12 years ago remains a capital asset for financial reporting purposes. There is no evidence that the District has retired any capital assets from its schedule during the past four audit cycles.

With the implementation of Governmental Accounting Standards Board Statement 34 in fiscal year 2004, accurate record-keeping of capital assets is now a significant financial statement item.

We recommend the District analyze its capital asset schedule and retire capital assets that are fully depreciated and either no longer in the District's possession or not expected to be used productively by the District to conduct its business.

Client's Response:

We concur.

PREVIOUSLY REPORTED ITEM RESOLVED

Useful Lives for Capital Assets (04-1)

During our 2004 audit, we found that the District had a capitalization policy that did not provide parameters or guidelines for determining how useful lives within certain asset categories should be established.

Resolution

In February 2006, the District adopted a capitalization policy that provides guidelines for determining how useful lives within certain asset categories should be established.

II. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans; and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the Board of Managers will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Board of Managers will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Board of Managers determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Board of Managers will have to decide whether to hire an actuary.

If applicable for the Coon Creek Watershed District, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Managers
Coon Creek Watershed District

We have audited the financial statements of the governmental activities, each major fund, and the remaining fund information of the Coon Creek Watershed District as of and for the year ended December 31, 2005, and have issued our report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the Coon Creek Watershed District is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Coon Creek Watershed District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable

conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 01-2 and 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above are material weaknesses.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the Coon Creek Watershed District has no public debt, and claims and disbursements because that section does not apply to watershed districts.

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

This report is intended solely for the information and use of the Board of Managers and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 7, 2006