

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

FOR THE YEAR ENDED DECEMBER 31, 2004

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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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](http://www.auditor.state.mn.us).

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

**For the Year Ended December 31, 2004**



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

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

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

ORGANIZATION  
2004

<u>Board of Managers</u>	<u>Term Expires</u>
Jeff Knoll, President	May 2007
Joe Marvin, Vice President	May 2005
Warren Hoffman, Treasurer	May 2008
Gary Steen, Secretary	May 2005
Bill MacNally	May 2007
<u>District Administrator</u>	
Tim Kelly	Indefinite

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### INDEPENDENT AUDITOR'S REPORT

Board of Managers  
Coon Creek Watershed District

We have audited the accompanying financial statements of the governmental activities and each major fund of the Coon Creek Watershed District as of and for the year ended December 31, 2004, 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 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 and each major fund of the Coon Creek Watershed District as of December 31, 2004, 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.

As discussed in Note 1 to the financial statements, the Coon Creek Watershed District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as

amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2005, on our consideration of the Coon Creek Watershed District'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 should be considered in assessing the results of our audit.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 8, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2004  
(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, 2004. The MD&A is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year, 2004, and the prior year, 2003, is required to be presented in the MD&A. However, since this is the first year of implementation of the new reporting model contained in GASB Statement 34, and that statement permits the omission of prior year data in the year of implementation, the District has elected not to prepare comparative data due to the cost of adjusting prior year's financial statements to the new reporting model.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2004 fiscal year include the following:

- Total net assets are \$384,941. Total assets are \$1,481,876, and total liabilities are \$1,096,935 for the year ended December 31, 2004.
- Overall government-wide revenues totaled \$313,084 and were \$149,085 less than expenses.
- The General Fund's fund balance decreased \$190,722, or 43.51 percent, from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of three parts--Independent Auditor's Report, MD&A (this section), and the basic financial statements.

This MD&A is intended to serve as an introduction to the basic financial statements. The District's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The District presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The District's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how the District financed these services in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant/major funds. The remaining statement provides financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

### **Government-Wide Financial Statements--the Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps the reader determine whether the District's financial condition has improved or declined as a result of the current year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of the District's current year revenues and expenses, regardless of when the District receives the revenue or pays the expenditure, and report the District's net assets and changes in them. You can think of the District's net assets--the difference between assets and liabilities--as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's property tax base and the general economic conditions of the state and county, to assess the overall health of the District.

Governmental activities--The District reports its basic services in the "Governmental Activities" column of these reports. The activities reported by the District include conservation of natural resources. The District finances the majority of these activities with local property taxes.

### **Fund Financial Statements**

The District's fund financial statements provide detailed information about the significant funds--not the District as a whole. Significant governmental and fiduciary funds may be established by the District to meet requirements of a specific state law, to help control and manage money for a particular purpose/project, or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

Governmental funds--Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported in our financial statements using an accounting method called modified accrual accounting. This accounting method measures cash

and other financial assets that the District can readily convert to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the basic services it provides. Governmental fund information helps determine whether there are financial resources available that can be spent in the near future to finance various programs with the Coon Creek Watershed District. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets--the net assets were \$384,941 on December 31, 2004.

	<b>Table 1</b>		
	<b>Net Assets</b>		
	<u>2004</u>	<u>2003</u>	<u>Percent Change</u>
<b>Assets</b>			
Cash and investments	\$ 1,417,516	(1)	(1)
Taxes receivable	9,312	(1)	(1)
Due from other governments	10,986	(1)	(1)
Capital assets, net	<u>44,062</u>	(1)	(1)
<b>Total Assets</b>	<u>\$ 1,481,876</u>		
<b>Liabilities</b>			
Accounts payable	\$ 4,020	(1)	(1)
Salaries payable	3,251	(1)	(1)
Contracts payable	14,249	(1)	(1)
Due to other governments	47,816	(1)	(1)
Funds held in trust	1,003,166	(1)	(1)
Long-term liabilities			
Due in more than one year	<u>24,433</u>	(1)	(1)
<b>Total Liabilities</b>	<u>\$ 1,096,935</u>		
<b>Net Assets</b>			
Invested in capital assets	\$ 44,062	(1)	(1)
Unrestricted	<u>340,879</u>	(1)	(1)
<b>Total Net Assets</b>	<u>\$ 384,941</u>		

- (1) The District did not restate its 2003 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

**Table 2**  
**Change in Net Assets**  
**Governmental Activities**

	<u>2004</u>	<u>2003</u>	<u>Percent Change</u>
Revenues			
Program revenues			
Charges for services	\$ 3,252	(1)	(1)
General revenues			
Property taxes	273,380	(1)	(1)
State-aid	21,418	(1)	(1)
Investment income	15,034	(1)	(1)
Total Revenues	\$ 313,084		
Expenses			
Program expenses			
Conservation of natural resources	462,169	(1)	(1)
Increase (Decrease) in Net Assets	\$ (149,085)	(1)	(1)
Net Assets - January 1, 2004	534,026	(1)	(1)
Net Assets - December 31, 2004	<u>\$ 384,941</u>		

(1) The District did not restate its 2003 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

## CAPITAL ASSETS

As of December 31, 2004, the District had \$44,062 invested in net capital assets. (See Table 3.) This amount represents a net increase (including additions and deductions) of \$33,448, or 315.1 percent, from last year.

**Table 3**  
**Capital Assets at Year-End**

	<u>2004</u>	<u>2003</u>
Machinery and equipment	\$ 94,553	\$ 58,050
Less: accumulated depreciation	(50,491)	(47,436)
Net Capital Assets	<u>\$ 44,062</u>	<u>\$ 10,614</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 \$359,416.

Revenues for the District's governmental funds were \$321,232, while total expenditures were \$491,031.

### 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	
	2004	2003	Increase/ (Decrease)	Percent (%)
Taxes	\$ 257,826	\$ 252,571	\$ 5,255	2.1
Licenses and permits	954	970	(16)	(1.7)
Intergovernmental	20,493	22,304	(1,811)	(8.1)
Charges for services	1,593	517	1,076	208.1
Investment income	15,034	12,563	2,471	19.7
Miscellaneous and other	335	1,220	(885)	(72.5)
<b>Total General Fund Revenues</b>	<b>\$ 296,235</b>	<b>\$ 290,145</b>	<b>\$ 6,090</b>	<b>2.1</b>

Total General Fund revenue increased by \$6,090, or 2.1 percent, from the previous year. The mix of property tax and state-aid can change significantly from year to year without any net change in revenue, although it is expected to remain fairly constant in the short term.

The following schedule presents a summary of General Fund expenditures:

**Table A-5  
General Fund Expenditures**

Function	Year Ended December 31		Change	
	2004	2003	Increase/ (Decrease)	Percent (%)
Conservation of natural resources	\$ 486,957	\$ 454,438	\$ 32,519	7.2

### **General Fund Budgetary Highlights**

- Actual revenues were \$40,108 less than expected.
- Actual expenditures were \$40,385 under the budgeted amount.

### **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.

## **BASIC FINANCIAL STATEMENTS**

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

**EXHIBIT 1**

**GOVERNMENTAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Operations and Maintenance</b>	<b>Ditch</b>	<b>Total</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Assets</b>						
Cash and investments	\$ 300,523	\$ 31,515	\$ 82,312	\$ 414,350	\$ -	\$ 414,350
Cash held in trust	1,003,166	-	-	1,003,166	-	1,003,166
Taxes receivable						
Current	3,129	287	-	3,416	-	3,416
Prior	5,501	395	-	5,896	-	5,896
Due from other governments	10,061	925	-	10,986	-	10,986
Noncurrent assets						
Capital assets						
Depreciable - net	-	-	-	-	44,062	44,062
<b>Total Assets</b>	<b><u>\$ 1,322,380</u></b>	<b><u>\$ 33,122</u></b>	<b><u>\$ 82,312</u></b>	<b><u>\$ 1,437,814</u></b>	<b><u>\$ 44,062</u></b>	<b><u>\$ 1,481,876</u></b>
<b>Liabilities</b>						
Current liabilities						
Accounts payable	\$ 780	\$ 3,240	\$ -	\$ 4,020	\$ -	\$ 4,020
Salaries payable	3,251	-	-	3,251	-	3,251
Contracts payable	14,249	-	-	14,249	-	14,249
Due to other governments	47,816	-	-	47,816	-	47,816
Deferred revenue - unavailable	5,501	395	-	5,896	(5,896)	-
Funds held in trust	1,003,166	-	-	1,003,166	-	1,003,166
Long-term liabilities						
Due in more than one year	-	-	-	-	24,433	24,433
<b>Total Liabilities</b>	<b><u>\$ 1,074,763</u></b>	<b><u>\$ 3,635</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,078,398</u></b>	<b><u>\$ 18,537</u></b>	<b><u>\$ 1,096,935</u></b>

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

**EXHIBIT 1  
(Continued)**

**GOVERNMENTAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Operations and Maintenance</b>	<b>Ditch</b>	<b>Total</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Fund Balance/Net Assets</u></b>						
Fund Balance						
Unreserved						
Designated for working capital cash flow	\$ 247,617	\$ 5,000	\$ -	\$ 252,617	\$ (252,617)	
Undesignated	-	24,487	82,312	106,799	(106,799)	
<b>Total Fund Balance</b>	<b><u>\$ 247,617</u></b>	<b><u>\$ 29,487</u></b>	<b><u>\$ 82,312</u></b>	<b><u>\$ 359,416</u></b>	<b><u>\$ (359,416)</u></b>	
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 1,322,380</u></b>	<b><u>\$ 33,122</u></b>	<b><u>\$ 82,312</u></b>	<b><u>\$ 1,437,814</u></b>		
 Net Assets						
Invested in capital assets					\$ 44,062	\$ 44,062
Unrestricted					340,879	340,879
<b>Total Net Assets</b>					<b><u>\$ 384,941</u></b>	<b><u>\$ 384,941</u></b>
 <b>Reconciliation of the Governmental Fund Balance to Net Assets</b>						
<b>Fund Balance - Governmental Fund</b>						\$ 359,416
Capital assets are reported on the statement of net assets but not in the fund balance sheet.						44,062
Long-term liabilities are reported on the statement of net assets but not in the fund balance sheet.						(24,433)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the fund balance sheet.						5,896
<b>Net Assets - Governmental Activities</b>						<b><u>\$ 384,941</u></b>

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

**EXHIBIT 2**

**GOVERNMENTAL FUND 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, 2004**

	General Fund	Operations and Maintenance	Ditch	Total	Adjustments	Governmental Activities
<b>Revenues</b>						
Taxes	\$ 257,826	\$ 23,702	\$ -	\$ 281,528	\$ (8,148)	\$ 273,380
Special assessments	-	-	370	370	-	370
Licenses and permits	954	-	-	954	-	954
Intergovernmental	20,493	925	-	21,418	-	21,418
Charges for services	1,593	-	-	1,593	-	1,593
Investment earnings	15,034	-	-	15,034	-	15,034
Miscellaneous	335	-	-	335	-	335
<b>Total Revenues</b>	<b>\$ 296,235</b>	<b>\$ 24,627</b>	<b>\$ 370</b>	<b>\$ 321,232</b>	<b>\$ (8,148)</b>	<b>\$ 313,084</b>
<b>Expenditures/Expenses</b>						
<b>Current</b>						
Conservation	\$ 450,454	\$ 3,540	\$ 534	\$ 454,528	\$ 4,586	\$ 459,114
Depreciation	-	-	-	-	3,055	3,055
<b>Capital outlay</b>	<b>36,503</b>	<b>-</b>	<b>-</b>	<b>36,503</b>	<b>(36,503)</b>	<b>-</b>
<b>Total Expenditures/ Expenses</b>	<b>\$ 486,957</b>	<b>\$ 3,540</b>	<b>\$ 534</b>	<b>\$ 491,031</b>	<b>\$ (28,862)</b>	<b>\$ 462,169</b>
<b>Net Change in Fund Balance/ Net Assets</b>	<b>\$ (190,722)</b>	<b>\$ 21,087</b>	<b>\$ (164)</b>	<b>\$ (169,799)</b>	<b>\$ 20,714</b>	<b>\$ (149,085)</b>
<b>Fund Balance/Net Assets</b>						
<b>January 1</b>	<b>438,339</b>	<b>8,400</b>	<b>82,476</b>	<b>529,215</b>	<b>4,811</b>	<b>534,026</b>
<b>December 31</b>	<b>\$ 247,617</b>	<b>\$ 29,487</b>	<b>\$ 82,312</b>	<b>\$ 359,416</b>	<b>\$ 25,525</b>	<b>\$ 384,941</b>

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

<b>Net Change in Fund Balance</b>	<b>\$ (169,799)</b>
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	\$ 36,503
Current year depreciation	(3,055)
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.	33,448
The adjustment is the change in compensated absences payable.	(4,586)
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 decrease in revenues deferred as unavailable.	(8,148)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (149,085)</b>

COON CREEK WATERSHED DISTRICT  
ANOKA COUNTY, MINNESOTA

*EXHIBIT 3*

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2004

Assets

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

Accounts payable	\$ <u>7,703</u>
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**COON CREEK WATERSHED DISTRICT  
ANOKA COUNTY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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1. Summary of Significant Accounting Policies

The Coon Creek Watershed District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement all provisions of the statement in the current year.

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.

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

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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 who are appointed by the Anoka County Board of Commissioners for three-year terms.

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 Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the District. These statements 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.

In the government-wide statement of net assets, the governmental activities column:

- (a) is presented on a consolidated basis; and

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

(b) is 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.

The statement of activities demonstrates the degree to which the direct expense of each function of the District's governmental activities is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

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.

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The District considers all revenues to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are needed.

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

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

Cash and investments are stated at fair value and consist of amounts in demand deposits, savings, and a pooled investment fund organized under Minn. Stat. § 471.59, the Joint Powers Act.

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.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Capital Assets (Continued)

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 is depreciated using the straight-line method over the estimated useful lives ranging from 3 to 20 years.

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 \$22,047 at December 31, 2004. 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 government-wide financial statements 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.

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

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1. Summary of Significant Accounting Policies

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

6. 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.

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.

E. Adjustments and Reclassifications

1. Fund Reclassifications

Due to the implementation of GASB Statement 34, the “509” Management Special Revenue Fund was combined into the General Fund, raising the General Fund’s January 1, 2004, fund balance to \$438,339.

2. Ditch Special Revenue Fund

The ten individual ditch funds reported in previous years have been combined into one fund, the Ditch Special Revenue Fund, with a January 1, 2004, fund balance of \$82,476.

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 following special revenue funds: Operations and Maintenance Fund and Ditch Fund.

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

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2. Stewardship, Compliance, and Accountability

A. Budgetary Information (Continued)

The budgets may be amended or modified at any time by the Board. Comparisons of estimated revenues and expenditures to actual are presented in the financial statements 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 funds had expenditures in excess of budget for the year ended December 31, 2004. Budgetary comparison to actual funds result information can be found in Schedules 1, 2, and 3.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.04 and 118A.05 authorize the type of investments that are available to the District. At December 31, 2004, the District held \$1,425,219 in a pooled investment fund (Minnesota Association of Governments Investing for Counties Fund) organized under Minn. Stat. § 471.59, the Joint Powers Act. The General Fund receives all investment income.

2. Receivables

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

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

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Machinery and equipment	\$ 58,050	\$ 36,503	\$ -	\$ 94,553
Less: accumulated depreciation for				
Machinery and equipment	(47,436)	(3,055)	-	(50,491)
 Total Capital Assets Depreciated, Net	 \$ 10,614	 \$ 33,448	 \$ -	 \$ 44,062

Depreciation expense of \$3,055 was charged to the District's conservation of natural resources function.

B. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities	Fiduciary Fund
Accounts	\$ 4,020	\$ 7,703
Salaries	3,251	-
Contracts	14,249	-
Due to other governments	47,816	-
 Total Payables	 \$ 69,336	 \$ 7,703

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

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3. Detailed Notes on All Funds

B. Liabilities (Continued)

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, 2004, is summarized below by fund:

	Taxes
Governmental Funds	
General	\$ 5,501
Operations and maintenance	395
	\$ 5,896
Total	\$ 5,896

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, 2004, is \$24,433, which is an increase of \$4,586 from the payable of \$19,847 at December 31, 2003.

4. Funds Held in Trust

Funds held in trust at December 31, 2004, consist of the following:

Developer deposits	\$ 1,003,166
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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 \$12,912 on this lease for the year ended December 31, 2004.

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, 2004.

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

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3. Detailed Notes on All Funds

B. Liabilities

5. Operating Leases (Continued)

Future minimum lease payments under the operating leases consist of the following at December 31, 2004:

<u>Fiscal Year</u>	<u>Space</u>	<u>Copier</u>	<u>Total</u>
2005	\$ 13,304	\$ 2,415	\$ 15,719
2006	13,584	2,415	15,999
2007	13,584	604	14,188
2008	5,660	-	5,660
Total	<u>\$ 46,132</u>	<u>\$ 5,434</u>	<u>\$ 51,566</u>

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. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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.

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

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4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 web at [mnpera.org](http://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.

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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The District is required to contribute the following percentages of annual covered payroll:

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

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4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The District's contributions for the years ending December 31, 2004, 2003, and 2002, were \$8,249, \$8,024, and \$7,423, 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, 2004, 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.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 260,634	\$ 260,634	\$ 257,826	\$ (2,808)
Licenses and permits	1,476	1,476	954	(522)
Intergovernmental	27,993	27,993	20,493	(7,500)
Charges for services	32,240	32,240	1,593	(30,647)
Investment income	14,000	14,000	15,034	1,034
Miscellaneous	-	-	335	335
<b>Total Revenues</b>	<b>\$ 336,343</b>	<b>\$ 336,343</b>	<b>\$ 296,235</b>	<b>\$ (40,108)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Personal services	\$ 193,907	\$ 193,907	\$ 189,248	\$ 4,659
Contractual services	151,105	151,105	164,366	(13,261)
Other services and charges	150,831	150,831	96,840	53,991
Capital outlay	31,499	31,499	36,503	(5,004)
<b>Total Expenditures</b>	<b>\$ 527,342</b>	<b>\$ 527,342</b>	<b>\$ 486,957</b>	<b>\$ 40,385</b>
<b>Net Change in Fund Balance</b>	<b>\$ (190,999)</b>	<b>\$ (190,999)</b>	<b>\$ (190,722)</b>	<b>\$ 277</b>
<b>Fund Balance - January 1</b>	<b>438,339</b>	<b>438,339</b>	<b>438,339</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 247,340</b>	<b>\$ 247,340</b>	<b>\$ 247,617</b>	<b>\$ 277</b>

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

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
OPERATIONS AND MAINTENANCE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 25,848	\$ 25,848	\$ 23,702	\$ (2,146)
Intergovernmental	-	-	925	925
<b>Total Revenues</b>	<b>\$ 25,848</b>	<b>\$ 25,848</b>	<b>\$ 24,627</b>	<b>\$ (1,221)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Contractual services	\$ 50,000	\$ 50,000	-	\$ 50,000
Other services and charges	-	-	3,540	(3,540)
<b>Total Expenditures</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ 3,540</b>	<b>\$ 46,460</b>
<b>Net Change in Fund Balance</b>	<b>\$ (24,152)</b>	<b>\$ (24,152)</b>	<b>\$ 21,087</b>	<b>\$ 45,239</b>
<b>Fund Balance - January 1</b>	<b>8,400</b>	<b>8,400</b>	<b>8,400</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (15,752)</b>	<b>\$ (15,752)</b>	<b>\$ 29,487</b>	<b>\$ 45,239</b>

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

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ -	\$ -	\$ 370	\$ 370
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Contractual services	\$ 63,248	\$ 63,248	\$ -	\$ 63,248
Other services and charges	-	-	534	(534)
<b>Total Expenditures</b>	<b>\$ 63,248</b>	<b>\$ 63,248</b>	<b>\$ 534</b>	<b>\$ 62,714</b>
<b>Net Change in Fund Balance</b>	<b>\$ (63,248)</b>	<b>\$ (63,248)</b>	<b>\$ (164)</b>	<b>\$ 63,084</b>
<b>Fund Balance - January 1</b>	<b>82,476</b>	<b>82,476</b>	<b>82,476</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 19,228</b>	<b>\$ 19,228</b>	<b>\$ 82,312</b>	<b>\$ 63,084</b>

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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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, 2004.

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**SUPPLEMENTARY INFORMATION**

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**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.

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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, 2004

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>Assets</u>				
Cash and 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>

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**I. INTERNAL CONTROL**

PREVIOUSLY REPORTED ITEM 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, 2004, the difference was \$8,518. 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 that the District improve the accounting practices applied to its escrow accounts. We further recommend that the District reconcile its accounts to the general ledger. This may require assistance from the Anoka County Finance Department.

Client's Response:

*The District Board notes this finding and will pursue improvement in escrow accounting and coding procedures.*

ITEM ARISING THIS YEAR

04-1 Useful Lives for Capital Assets; Retirement of Capital Assets

In 2003, the District approved a capitalization policy for assets that defines capital assets for financial reporting purposes as those assets with an historic cost of \$250 or more and a useful life of at least three years (the District does have flexibility to capitalize "sensitive" assets with lives less than three years at its discretion). However, that policy provides no parameters or guidelines for determining how useful lives within certain asset categories should be established. Consequently, each asset is assigned a useful life when purchased or received, leading to potentially arbitrary determinations about useful lives.

Further, numerous capital assets that have been fully depreciated for many years remain in the District's schedule of fixed assets despite appearing to be obsolete. For example, a Northgate computer purchased for \$3,073 in 1990 and fully depreciated 11 years ago remains a capital asset for financial statement reporting purposes. There is no evidence that the District has retired any capital assets from its schedule during the past three 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 amend its capitalization policy to provide ranges of useful lives for particular categories of capital assets. We further recommend that the District analyze its fixed asset schedule and retire capital assets that are fully depreciated and either no longer in the District's possession or that are not expected to be used productively by the District to conduct its business.

Client's Response:

*The District concurs.*

#### PREVIOUSLY REPORTED ITEM RESOLVED

##### **Developer Escrow and Fee Accounts (03-1)**

During our 2003 audit, we found that the fees charged to developers were not handled consistently. In some instances, fees were recorded as revenues, while in others, they were netted against expenditures.

##### **Resolution**

The issue arose largely because the District used a form of contra-revenue accounting for some developer fees. In 2004, contra-revenue accounts were eliminated, and we found no issues related to this item.

## **II. MANAGEMENT PRACTICES**

#### PREVIOUSLY REPORTED ITEMS RESOLVED

##### **Recording Expenditures in Accordance with Budget Adoptions (01-3)**

Expenditures of the General Fund and the "509" Management Special Revenue Fund were not recorded consistent with their respective budgets, as expenditures in these funds were being charged to either fund with little or no apparent rationale for the decisions. Expenditures of the "509" Management Fund were used for General Fund purposes, and General Fund expenditures were sometimes charged to the "509" Management Fund.

**Resolution**

The District decided to combine the “509” Management Special Revenue Fund into the General Fund. Fiscal year 2004 is the first year of implementation of this decision.

**Designations of Fund Balance (01-4)**

The District’s balance sheets included designations of fund balances for cash flow purposes with designations that did not change for a number of years, raising doubts about the usefulness of the designations.

**Resolution**

The amounts of fund balances designated for cash flows changed in the District’s 2005 budget, adopted on September 13, 2004. In addition, the District Board took action at its January 10, 2005, Board meeting to specifically designate fund balances for the first six months of 2005.

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### **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 Coon Creek Watershed District as of and for the year ended December 31, 2004, and have issued our report thereon dated November 8, 2005. 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 assurance 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.

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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 8, 2005