MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT OF THE

COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008
Description of the Office of the State Auditor

The mission of the Office of the State Auditor 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.

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I. INTERNAL CONTROL OVER FINANCIAL REPORTING

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, 2008, the difference was $1,630. 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:

The District concurs and will continue to coordinate with Anoka County Finance department.

PREVIOUSLY REPORTED ITEMS RESOLVED

Preparation of Financial Statements (06-1)
The District had relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process.

Resolution
For 2008, Anoka County prepared the basic financial statements, including notes to the financial statements.
Audit Adjustment (07-1)
During our 2007 audit, we identified a material adjustment in the General Fund. The proposed audit adjustment was reviewed and approved by the appropriate staff and was reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the District’s internal control.

Resolution
No material audit adjustments were identified during our 2008 audit.

II. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides 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 GASB Statement 45, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.
Some of the issues that the District’s Board of Managers will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the District’s 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 District’s Board of Managers determines that the establishment of a trust is desirable in order to fund the OPEB, the District’s Board of Managers will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the District’s Board of Managers will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the District’s Board of Managers will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to the District for the year ended December 31, 2009.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Managers  
Coon Creek Watershed District

Internal Control Over Financial Reporting

In planning and performing our audit of 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, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Coon Creek Watershed District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District’s financial statements that is more than inconsequential will not be prevented or detected by the District’s internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Coon Creek Watershed District’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.
We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiency described in the accompanying Schedule of Findings and Recommendations as item 01-2 to be a significant deficiency in internal control over financial reporting.

**Minnesota Legal Compliance**

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, 2008, which collectively comprise the District’s basic financial statements. 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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. 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.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Coon Creek Watershed District, and it is reported for that purpose.

The Coon Creek Watershed District’s written response to the significant deficiency indentified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the District’s response and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto                                /s/Greg Hierlinger

REBECCA OTTO                                    GREG HIERLINGER, CPA
STATE AUDITOR                                    DEPUTY STATE AUDITOR

December 17, 2009