ANNUAL AUDIT EXIT MEETING

COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2015

CONFIDENTIAL

This draft is classified as confidential and protected nonpublic data under Minnesota law until a final audit report is published by the State Auditor’s Office. See Minn. Stat. § 6.715. As part of the audit process, the audit client may show the draft only to employees or officials as necessary to prepare client responses for the final audit report. The release of this draft to anyone else before publication of the final audit report is a violation of Minnesota law.
[date report released], 2016

Board of Managers
Coon Creek Watershed District
Blaine, Minnesota

We have audited the 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, 2015. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting about planning matters on February 11, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 21, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Coon Creek Watershed District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Coon Creek Watershed District are described in Note 1 to the financial statements. During 2015, the District adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement
No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and changes the amount employers report as pension expense and defers some allocations of expenses to future years. The financial statements include a prior period adjustment to restate beginning net position. The January 1, 2015, net position was restated by ($396,263) to reflect the net pension liability and related deferred outflows of resources as of that date. See Note 1.E. to the financial statements. No other new accounting policies were adopted, and the application of existing policies was not changed during 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the governmental activities were the estimated useful lives and related depreciation of capital assets; the year-end liability for compensated absences; and the net pension liability, deferred outflows of resources, deferred inflows of resources, and the pension expense related to pension benefits.

Management’s estimate of the useful lives and related depreciation of capital assets are based on past experience with replacement of worn assets and industry averages. The year-end liability for compensated absences is partially calculated from sick time that has either vested or is expected to vest. The net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to pension benefits were based on information provided by the Public Employees Retirement Association (PERA). Plan totals for these amounts were determined by an actuary hired by PERA with a valuation date as of June 30, 2015. The proportionate share by employer was calculated by PERA. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements of the governmental activities.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.
Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated [need opinion date], 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We applied certain limited procedures to the Management’s Discussion and Analysis and Required Supplementary Information as listed in the table of contents, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on it.
This information is intended solely for the use of the Board of Managers and management of the Coon Creek Watershed District and is not intended to be, and should not be, used by anyone other than those specified parties.

REBECCA OTTO             GREG HIERLINGER, CPA
STATE AUDITOR             DEPUTY STATE AUDITOR
COON CREEK WATERSHED DISTRICT
ANOKA COUNTY, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2015-001

Contract Compliance

Criteria: Minn. Stat. § 16C.285 states that for each construction contract in excess of $50,000 awarded pursuant to a lowest responsible bidder or best value process, the successful contractor must submit verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3.

Condition: During our testing of contracts for compliance with contracting and bid laws, we noted two construction contracts where the District was unable to provide the signed responsible bidder certification form.

Context: The responsible bidder certification statute is new for 2015.


Cause: District staff was not aware of the requirements of the new statute for construction contracts over $50,000 awarded through the lowest responsible bidder or best value process.

Recommendation: We recommend the District obtain the responsible bidder certification forms on all construction contracts over $50,000 and bid through the lowest responsible bidder or best value process.

Client’s Response:
INDEPENDENT AUDITOR’S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Board of Managers
Coon Creek Watershed District
Blaine, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2015, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated [need opinion date], 2016.

The Minnesota Legal Compliance Audit Guide for Other Political Subdivisions, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Coon Creek Watershed District administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the Coon Creek Watershed District failed to comply with the provisions of the Minnesota Legal Compliance Audit Guide for Other Political Subdivisions, except as described in the Schedule of Findings and Recommendations as item 2015-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District’s noncompliance with the above referenced provisions.

The Coon Creek Watershed District’s written response to the legal compliance finding identified 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 and management of the Coon Creek Watershed District and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

REBECCA OTTO          GREG HIERLINGER, CPA
STATE AUDITOR         DEPUTY STATE AUDITOR

[need opinion date], 2016
COON CREEK WATERSHED DISTRICT
ANALYSIS OF FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2015

The OSA recommends counties maintain unrestricted fund balances in their larger funds of approximately 35 to 50 percent of fund operating revenues, or no less than five months of operating expenditures. The following is an analysis of the District's fund balance in the General Fund based on these guidelines.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operating revenues (Exhibit 2)</td>
<td>$2,234,017</td>
</tr>
<tr>
<td>2. Operating expenditures (Exhibit 2)</td>
<td>$2,064,939</td>
</tr>
<tr>
<td>3. Unrestricted fund balance (Exhibit 1)</td>
<td>$1,022,694</td>
</tr>
<tr>
<td>4. 35% of operating revenues (line 1)</td>
<td>$781,906</td>
</tr>
<tr>
<td>5. 50% of operating revenues (line 1)</td>
<td>$1,117,009</td>
</tr>
<tr>
<td>6. 5 months of operating expenditures (5/12ths of line 2)</td>
<td>$860,391</td>
</tr>
</tbody>
</table>

Using the OSA's guidelines, the amount on line 3 should be between the amounts on lines 4 and 5, or should be no less than the amount on line 6.