Date: Tuesday, February 19, 2013  
Time: 10:30 a.m.  
Location: Watershed District Offices

Present:  
Bill MacNally – Treasurer, Board of Managers  
Tim Kelly – District Administrator  
Diana Shonyo – Administrative Assistant  
Brenda Pavelich-Beck – Anoka County Accounting Director  
Lindsey Meyer – Anoka County Financial Coordinator  
Randy Vogt – Audit Director, Office of the State Auditor

1. **Staffing/Administration**

   Returning staff: Randy Vogt, Juli Mader, and Lisa Young

   New staff: Nikki Bjornrud

   Staff timing: We’ll be working out of the Anoka County Government Center and will start the audit when Anoka County staff has completed the financial report.

2. **SAS No. 114 - The Auditor’s Communications With Those Charged With Governance**

   Statement on Auditing Standards (SAS) No. 114 defines “those charged with governance” and establishes communication requirements between auditors and those charged with governance. At the Coon Creek Watershed District we’ve identified those charged with governance over the financial reporting process as the members of the Board of Managers and the District Administrator.

   Our audit engagement letter covers some of the communications required by SAS 114. Specifically, it addresses: (1) what responsibilities we, as your external auditor, are and are not assuming; (2) what your responsibilities are as they apply to the audit; and (3) the scope and timing of the audit.

   A. Auditor’s responsibilities under generally accepted auditing standards:

      1) Forming and expressing opinions about whether the financial statements prepared by management are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
2. SAS No. 114 - The Auditor’s Communications With Those Charged With Governance

A. Auditor’s responsibilities under generally accepted auditing standards (Continued):

2) Performing the audit in accordance with:
   a. generally accepted auditing standards (issued by the American Institute of Certified Public Accountants); and
   b. the legal provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions.

3) Our audit includes consideration of the internal control over financial reporting, but we will not express opinions on the effectiveness of the internal controls.

4) Communicating significant matters related to the audit.

B. Client’s responsibilities:

1) Establishing and maintaining internal controls, including evaluating and monitoring the ongoing activities; the selection and application of accounting principles; the fair presentation of the financial statements; and compliance with applicable laws, regulations, and the provisions of contracts and grant agreements.

2) Identifying government award programs, if any, and understanding and complying with the compliance requirements.

3) Making all management decisions and performing all management functions relative to the financial statements, and accepting full responsibility for them.

4) Designating a qualified management-level individual to be responsible and accountable for overseeing our services.

   Tim Kelly has been given this responsibility in previous audits; he will also have this role for the current audit.

5) Making all financial records and related information available to us, and for the accuracy and completeness of that information.
2. **SAS No. 114 - The Auditor’s Communications With Those Charged With Governance**

**B. Client’s responsibilities (Continued):**

6) Designing and implementing programs and controls to prevent and detect fraud, and informing us about all known or suspected fraud or illegal acts affecting the entity that could have a material effect on the financial statements.

7) Adjusting the financial statements to correct material misstatements.

8) Establishing and maintaining a process for tracking the status of audit findings and recommendations.

9) Identifying for us previous financial audits or other engagements related to the objectives of our audit as discussed in the engagement letter, and relaying to us corrective actions taken to address significant findings and recommendations identified as a result of those audits or engagements.

10) Providing management’s views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

**C. Overview of the planned scope and timing of the audit:**

1) We will audit the basic financial statements of the Coon Creek Watershed District for the year ended December 31, 2012.

2) Pursuant to Minn. Admin. Rules 8410.0150, subpart 1, the District’s audit report is due to the State Board within 120 days after year end. It’s our understanding that Anoka County staff will again be preparing the Watershed District’s financial report. Preliminary discussions have indicated that the financial report wouldn’t be ready until around the first week of May, which is past the deadline. Update?

*Brenda and Lindsey confirmed that the County most likely would not be done with Coon Creek’s financial report in time to meet the statutory deadline because the County is in the midst of putting in a new general ledger system that’s supposed to go live on April 1, 2013. They will try their best to get the report to us by the first week of May but that may change if there are unforeseen problems with the new software. Tim had previously discussed the late report with BWSR and explained the reasons for it. BWSR was fine with it as long as it’s not unreasonably late.*
2. **SAS No. 114 - The Auditor’s Communications With Those Charged With Governance**

   C. Overview of the planned scope and timing of the audit (Continued):

   3) Lisa and Nikki are scheduled to do some of the preliminary planning work around the end of February. Nikki will be available to start the audit as soon as Anoka County has completed the financial report.

   D. All audit findings will be communicated to management as the audit progresses. We will also communicate any significant audit findings to the Board of Directors before the audit report is issued at the audit exit meeting.

   E. Communications about significant accounting policies, sensitive accounting estimates, significant audit adjustments, disagreements with management, difficulties encountered in performing the audit, and other significant issues arising from the audit will be communicated to those charged with governance in a separate letter at the conclusion of the audit.

3. **Update on Prior Year Audit Findings**

   The Coon Creek Watershed District had no findings reported as a result of the 2011 audit.

4. **New Accounting Pronouncements**

   New statements issued by the Governmental Accounting Standards Board (GASB) that are effective for the year ended December 31, 2012.

   1) **GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements**

      The objective of GASB Statement 60 is to address inconsistencies in the financial reporting of service concession arrangements, which are basically partnerships between two governmental entities or a governmental entity and a private entity. In these arrangements, the transferor is a governmental entity while the operator can be another government or a private entity.

      Examples of service concession arrangements include the operation of a city zoo or parking garage on behalf of a government, or the construction and operation of a tollway on behalf of a government.

      This statement is effective for periods beginning after December 15, 2011; it most likely does not affect the Coon Creek Watershed District.
4. New Accounting Pronouncements (Continued)

2) GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

This Statement incorporates into the GASB’s authoritative literature certain Financial Accounting Standards Board (FASB) and AICPA pronouncements issued prior to November 30, 1989. Governments have always been required to implement these to the extent they do not contradict GASB guidance.

GASB Statement No. 62 brings the authoritative financial reporting literature for governments together in one place, thus eliminating the need for governmental entities to determine which FASB and AICPA pronouncement provisions apply to governments.

Additionally, GASB Statement No. 20 permitted governments with enterprise funds and business-type activities to elect to implement FASB pronouncements issued after November 30, 1989, to the extent these didn’t contradict GASB pronouncements. GASB Statement No. 62 eliminates this option.

This statement is effective for periods beginning after December 15, 2011. We anticipate that it will have minimal impact on the Coon Creek Watershed District’s report.

3) GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position

This statement provides guidance for reporting deferred outflows of resources and deferred inflows of resources within the financial statements of governmental entities. Unless an entity decides to early implement GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, most entities will not have any deferred inflows or deferred outflows. GASB Statement 65 is effective for periods beginning after December 15, 2012, but early implementation is encouraged.

GASB Statement 63 is effective for periods beginning after December 15, 2011. The main effect on the 2012 audit will be to rename net assets to net position wherever it might appear in the Coon Creek Watershed District’s financial report.
4. **New Accounting Pronouncements (Continued)**

4) **GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions**

This statement designates specific circumstances where hedge accounting may continue after the termination of the hedging derivative instrument. (An example of this type of instrument is an investment in futures contracts for commodities such as gasoline or natural gas.)

This statement is effective for periods beginning after December 15, 2011. We anticipate that it will have no impact on the Watershed District’s report as the District holds no derivative instruments as investments.

5. **Other Items**

A. During 2012, were there any:

   - Changes in the fund structure, including new funds, new major funds, or closed funds?

   *Tim informed us a fund that has been inactive the past several years, the Survey and Data Acquisition Fund (no. 8612), was used this year to record the activity of two State grants received by the Watershed District. Both of the projects associated with these grants were completed in 2012, but the final report has not yet been issued by the MN Pollution Control Agency (PCA). Also, the PCA will not release the final ten percent due on the project until the final report has been issued, so there will be a receivable associated with these grants at December 31, 2012. Tim said we should combine the activity of this fund with the General Fund for reporting purposes.*

   - Significant accounting issues or unusual transactions? *None noted.*

   - Changes in accounting methods or application of accounting principles? *No.*

   - New legislation having an impact on the financial statements? *None noted.*

   - Fraud reported to management? *No.*

   - Related party transactions? If so, there are specific note disclosures that would have to be added to the financial report. *No.*

   - Significant legal matters and/or contingencies? *No.*
5. **Other Items**

A. During 2012, were there any (Continued):

   - New debt issues? *No.*

   - Reports from state or federal regulatory agencies?

     The PCA has already completed its review of the two previously-mentioned State grants received by the Watershed District but the final report has not yet been issued. We requested a copy once they issue it.

   - Significant or unusual capital expenditures?

     None noted. Diana will email the Watershed District’s capital assets spreadsheet to Lindsey today. There will most likely still be an adjustment to one of the capital assets but the County can get started with what is sent today.

   - Any federal grants? *No.*

   - Any other items of significance we should be aware of? *Nothing noted.*

B. SAS 114 requires us to meet and communicate certain items to those charged with governance. Would you like us to meet with the District’s Board of Directors to go over what we discussed here today?

   Neither Tim nor Bill thought it was necessary for us to incur more expenses to present what we discussed today to the full Board. However, in order to keep the Board fully informed, we will send the notes on this meeting to all Board members.

C. Questions, comments, or concerns? *None.*

*There being nothing further to discuss we adjourned the meeting at approximately 11:00 a.m.*

Randall R. Vogt, CPA  
Audit Director  
Minnesota Office of the State Auditor