

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**SOUTHEAST MINNESOTA WATER RESOURCES BOARD**  
**ROCHESTER, 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).

**SOUTHEAST MINNESOTA  
WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

**For Year Ended December 31, 2004**



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

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**SOUTHEAST MINNESOTA WATER  
RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2004

Name	Representing	Position
<b>Board Members</b>		
David H. Hanson	Dodge County	
Lyle Tjosaas	Dodge County	
Marc Prestby	Fillmore County	
Duane Bakke	Fillmore County	
Jim Bryant	Goodhue County	Chair
Richard Samuelson	Goodhue County	
Nels Gulbranson	Houston County	
Ann Thompson	Houston County	
Garry Ellingson	Mower County	
Dick Cummings	Mower County	
Matt Flynn	Olmsted County	
Dave Perkins	Olmsted County	
Heather Robins	Rice County	
Don Olson	Rice County	
Bruce Kubicek	Steele County	**
Jim Wagner	Steele County	
Peter Reister	Wabasha County	
David Harms	Wabasha County	
Marcia Ward	Winona County	Vice Chair*
Dwayne Voegeli	Winona County	
<b>Officer</b>		
Bea Hoffmann		Executive Director

\* 2005 Chair  
\*\* 2005 Vice Chair

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board Members  
Southeast Minnesota Water  
Resources Board

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Southeast Minnesota Water Resources Board as of and for the year ended December 31, 2004, which collectively comprise the Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Board'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 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 the General Fund of the Southeast Minnesota Water Resources Board 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 the notes to the financial statements, the Southeast Minnesota Water Resources Board 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 Southeast Minnesota Water Resources Board has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2005, on our consideration of the Southeast Minnesota Water Resources Board'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 read in conjunction with this report in considering 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 14, 2005

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

**EXHIBIT 1**

**GENERAL 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>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 223,146	\$ -	\$ 223,146
Accrued interest receivable	2,476	-	2,476
Due from other governments	32,040	-	32,040
Noncurrent assets			
Capital assets			
Depreciable - net	-	79,538	79,538
<b>Total Assets</b>	<b>\$ 257,662</b>	<b>\$ 79,538</b>	<b>\$ 337,200</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 9,794	\$ -	\$ 9,794
Salaries payable	12,241	-	12,241
Due to other governments	50,186	-	50,186
Deferred revenue - unavailable	13,585	(13,585)	-
Deferred revenue - unearned	153,163	-	153,163
Long-term liabilities			
Due within one year	-	443	443
Due in more than one year	-	5,112	5,112
<b>Total Liabilities</b>	<b>\$ 238,969</b>	<b>\$ (8,030)</b>	<b>\$ 230,939</b>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance			
Unreserved			
Undesignated	18,693	(18,693)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 257,662</b>		
Net Assets			
Invested in capital assets - net of related debt		\$ 79,538	\$ 79,538
Unrestricted		26,723	26,723
<b>Total Net Assets</b>		<b>\$ 106,261</b>	<b>\$ 106,261</b>
<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>			
<b>Fund Balance - Governmental Fund</b>			<b>\$ 18,693</b>
Capital assets are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			79,538
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			(5,555)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Fund Balance Sheet			13,585
<b>Net Assets - Governmental Activities</b>			<b>\$ 106,261</b>

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

**EXHIBIT 2**

**GENERAL 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**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
<b>Intergovernmental</b>			
Federal			
U.S. Environmental Protection Agency	\$ 72,660	\$ 13,585	\$ 86,245
State Underground Water Source Protection	413,595	-	413,595
<b>Total intergovernmental</b>	<b>\$ 486,255</b>	<b>\$ 13,585</b>	<b>\$ 499,840</b>
Charges for services	68,672	-	68,672
Investment earnings	2,476	-	2,476
Miscellaneous	2,146	-	2,146
<b>Total Revenues</b>	<b>\$ 559,549</b>	<b>\$ 13,585</b>	<b>\$ 573,134</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Water quality</b>			
Administrative salaries and benefits	\$ 28,136	\$ (715)	\$ 27,421
Administrative supplies	1,302	-	1,302
Grant-related costs	511,418	-	511,418
Depreciation	-	8,592	8,592
<b>Total Expenditures/Expenses</b>	<b>\$ 540,856</b>	<b>\$ 7,877</b>	<b>\$ 548,733</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 18,693</b>	<b>\$ 5,708</b>	<b>\$ 24,401</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>-</b>	<b>81,860</b>	<b>81,860</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 18,693</b>	<b>\$ 87,568</b>	<b>\$ 106,261</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>\$ 18,693</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. The Board had no capital outlay in 2004. The adjustment is for depreciation expense.	(8,592)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The adjustment is the change in compensated absences payable.	715
In the General Fund, 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 General Fund statement and the statement of activities is the increase in revenues deferred as unavailable.	13,585
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 24,401</b>

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, 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 Southeast Minnesota Water Resources Board (Board) 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 Board 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:

- For the first time, the financial statements include:
  - Financial statements prepared using full accrual accounting for all of the Board'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 financial statements).

A. Financial Reporting Entity

The Board was established May 5, 1987, as provided by Minn. Stat. § 471.59. The Board was established to receive and spend federal and state grants and other related funds for the purpose of comprehensive water management planning. The Board is composed of two representatives from each of the ten participating counties. The Board has contracted with Olmsted County to act as its fiscal agent and is organized with a chair and vice chair.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements and government-wide financial statements (the governmental activities column). These statements include the financial activities of the overall Joint Powers Board.

The governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Board'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 Board first utilizes restricted resources to finance qualifying activities.

C. Measurement Focus and Basis of Accounting

The governmental activities columns 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund columns (General Fund) 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 Board considers all revenues to be available if collected within 60 days after the end of the current period. Grants and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for compensated absences and claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, and then unrestricted resources, as they are needed.

D. Budgets

The Board has adopted grant budgets for the various grant periods. These budgets may be amended or modified as additional grants are received. A comparison of budgeted revenues and expenditures to actual has not been presented in the financial statements.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Cash

The Board's cash and investments consist of cash on deposit with Olmsted County.

2. Capital Assets

Capital assets are reported in the applicable governmental column in the governmental activities column of the financial statements. Capital assets are defined by the entity as purchases made for items with an individual cost of \$1,000 or more. Such assets are recorded at historical cost or estimated cost if constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the Board is depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Category</u>	<u>Useful Life</u>
Computer Equipment	5 - 12 years
Monitoring Equipment	10 years
Educational Tools (Exhibits)	15 years

3. Compensated Absences

Under the Board's policies, employees are granted paid time off (combined vacation and sick leave) based on their length of service. Unused accumulated paid time off is paid to employees upon termination. Compensated absences are accrued when incurred in the governmental activities column financial statements. A liability for this amount is reported in the General Fund.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Deferred Revenue

The General Fund and the governmental activities column of the 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.

5. Fund Equity

The undesignated fund balance indicates the portion of fund balance that is available for future expenses.

6. 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.

F. Reclassification of Funds and Prior Period Adjustment

This is the first year the Board has reported in accordance with GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. This requires the Board to restate the Governmental Activities beginning net assets. Also discussed below are prior period adjustments.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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1. Summary of Significant Accounting Policies

F. Reclassification of Funds and Prior Period Adjustment (Continued)

The following table summarizes these changes in fund balances and net asset presentation.

**Reconciliation of Fund Balance to  
Governmental Activities Column of the Financial Statements**

Total Fund Balance - January 1	\$	-
Restated capital assets, net		88,130
Compensated absences payable		(6,270)
		81,860
Net Assets - January 1	\$	81,860
Prior period adjustment for changes in prior years' capital assets		
Capital assets as of December 31, 2003	\$	126,544
Less: Change in capitalization threshold		(2,314)
Less: Accumulated depreciation at January 1, 2004		(36,100)
		88,130
Capital Assets as of January 1, 2004, Net of Depreciation	\$	88,130

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Board to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Olmsted County Treasurer. At December 31, 2004, the Board had \$223,146 on deposit with Olmsted County. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Machinery, furniture, and equipment	\$ 124,230	\$ -	\$ -	\$ 124,230
Less: accumulated depreciation for				
Machinery, furniture, and equipment	<u>36,100</u>	<u>8,592</u>	<u>-</u>	<u>44,692</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 88,130</u>	<u>\$ (8,592)</u>	<u>\$ -</u>	<u>\$ 79,538</u>

Depreciation expense of \$8,592 was charged to the water quality function.

B. Liabilities

1. Change in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

Compensated absences - Beginning Balance	\$ 6,270
Additions	9,365
Deductions	<u>(10,080)</u>
Compensated absences - Ending Balance	<u>\$ 5,555</u>

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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2. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of the Board are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chapters 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 defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Under 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 PERA members hired prior to July 1, 1989, 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.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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2. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Board 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. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. The Board is required to contribute the following percentages of annual covered payroll:

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

The Board's contributions for the years ending December 31, 2004, 2003, and 2002, were \$9,021, \$7,123, and \$6,037, respectively, equal to the contractually required contribution for each year as set by state statute.

3. Summary of Significant Contingencies and Other Items

A. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the Board carries commercial insurance. The Board has entered into a joint

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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3. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

powers agreement with other Minnesota governmental entities to form the Minnesota Counties Insurance Trust (MCIT) to protect against liabilities for workers' compensation and property and casualty. For other risk, the Board carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 and \$760,000 per claim in 2004 and 2005, respectively. Should the MCIT Workers' Compensation Division liability exceed assets, the MCIT may assess the Board in a method and amount to be determined by the MCIT.

The Property and Casualty Division of the MCIT is self-sustaining, and the Board pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, the MCIT may assess the Board in a method and amount to be determined by the MCIT.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial.

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**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
ROCHESTER, MINNESOTA**

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

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

96-1 Segregation of Duties

In order to ensure proper control of the Southeast Minnesota Water Resources Board's assets and financial reporting, the services of more than one person are required to perform accounting-related activities, which include the preparation of grant reports. The Board has only one employee to perform these duties. Although this is not unusual in an agency of this size, the Board should be aware that, under these conditions, there is a general absence of internal control with respect to segregation of duties.

Because of the organization's limited staff size and structure, the most effective control lies in the Board's knowledge and constant awareness that the concentration of duties and responsibilities in one individual prevents the proper segregation of accounting and reporting functions. Therefore, we recommend that the Board continue to approve all bills and review reports submitted to granting agencies.

Client's Response:

*The Board recognizes that segregation of duties will continue to be reported as an unresolved item in all audit reports as long as the Board has only one employee. For this reason, the Board will review for approval all monthly financial reports (revenues and expenses by organization) at their regularly scheduled meetings.*

**PREVIOUSLY REPORTED ITEM RESOLVED**

**Grant Reporting (03-1)**

We noted several errors in the 2003 grant reports submitted to State and Federal agencies.

**Resolution**

The Southeast Minnesota Water Resources Board submitted amended December 31, 2004, grant reports for errors noted in grant reporting during the 2004 audit.

## **II. MANAGEMENT PRACTICES**

### **PREVIOUSLY REPORTED ITEM RESOLVED**

#### **Conflicts of Interest (01-1)**

While reviewing conflicts of interest, we noticed 2 of the 18 Board members did not sign a conflict-of-interest policy statement on an annual basis for 2003.

#### **Resolution**

All Board members and the Director of the Southeast Minnesota Water Resources Board signed the organization's conflict-of-interest policy for 2004.



**STATE OF MINNESOTA**  
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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board Members  
Southeast Minnesota Water  
Resources Board

We have audited the financial statements of the governmental activities and the General Fund of the Southeast Minnesota Water Resources Board as of and for the year ended December 31, 2004, and have issued our report thereon dated November 14, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southeast Minnesota Water Resources Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-1.

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 do not believe the reportable condition indicated above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southeast Minnesota Water Resources Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### 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.

The results of our tests indicate that, for the items tested, the Southeast Minnesota Water Resources Board complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 14, 2005