

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

---

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD**  
**WINONA, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2006

## **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.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@state.mn.us  
www.auditor.state.mn.us

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 Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**SOUTHEAST MINNESOTA  
WATER RESOURCES BOARD  
WINONA, MINNESOTA**

**For the Year Ended December 31, 2006**



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

This page was left blank intentionally.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Basic Financial Statements		
General Fund Balance Sheet and Governmental Activities - Statement of Net Assets	Exhibit 1	3
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities - Statement of Activities	Exhibit 2	5
Notes to the Financial Statements		7
<b>Management and Compliance Section</b>		
Schedule of Findings and Recommendations		15
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		17

This page was left blank intentionally.



This page was left blank intentionally.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2006

Name	Representing	Position
Board Members		
Don Gray	Dodge County	
Dave Hanson	Dodge County	Vice Chair*
Duane Bakke	Fillmore County	
Stafford Hansen	Fillmore County	
Jim Bryant	Goodhue County	
Richard Samuelson	Goodhue County	
Tom Bjerke	Houston County	
Ann Thompson	Houston County	
Dick Cummings	Mower County	**
David Hillier	Mower County	
Matt Flynn	Olmsted County	
Judy Ohly	Olmsted County	
Jake Gillen	Rice County	
Jessica Peterson	Rice County	
Bruce Kubicek	Steele County	Chair
Jim Wagner	Steele County	
David Harms	Wabasha County	
Peter Reister	Wabasha County	
Jerry Heim	Winona County	
Marcia Ward	Winona County	

Officer

Bea Hoffmann		Executive Director
--------------	--	--------------------

\*2007 Chair

\*\*2007 Vice Chair

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## 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, 2006, 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. 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, 2006, 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.

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.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 8, 2008

Page 2

This page was left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

**EXHIBIT 1**

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 132,845	\$ -	\$ 132,845
Accrued interest receivable	3,811	-	3,811
Due from other governments	33,843	-	33,843
Capital assets			
Depreciable - net	-	63,507	63,507
<b>Total Assets</b>	<b>\$ 170,499</b>	<b>\$ 63,507</b>	<b>\$ 234,006</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 1,283	\$ -	\$ 1,283
Salaries payable	3,067	-	3,067
Due to other governments	15,089	-	15,089
Deferred revenue - unavailable	33,843	(33,843)	-
Deferred revenue - unearned	119,280	(119,280)	-
Unearned revenue	-	119,280	119,280
Long-term liabilities			
Due within one year	-	98	98
Due in more than one year	-	1,266	1,266
<b>Total Liabilities</b>	<b>\$ 172,562</b>	<b>\$ (32,479)</b>	<b>\$ 140,083</b>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance			
Unreserved, undesignated	(2,063)	2,063	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 170,499</b>		
Net Assets			
Invested in capital assets		\$ 63,507	\$ 63,507
Unrestricted		30,416	30,416
<b>Total Net Assets</b>		<b>\$ 93,923</b>	<b>\$ 93,923</b>

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2006**

<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>	
<b>Fund Balance - Governmental Fund</b>	<b>\$ (2,063)</b>
Capital assets are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	63,507
Long-term liabilities are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	(1,364)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the Fund Balance Sheet.	<u>33,843</u>
<b>Net Assets - Governmental Activities</b>	<b><u><u>\$ 93,923</u></u></b>

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, 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, 2006**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<b>Revenues</b>			
<b>Intergovernmental</b>			
State			
Water and Soil Resources Board	\$ 2,475	\$ -	\$ 2,475
Federal			
U.S. Environmental Protection Agency Nonpoint Source Implementation	180,894	(16,799)	164,095
<b>Total intergovernmental</b>	<b>\$ 183,369</b>	<b>\$ (16,799)</b>	<b>\$ 166,570</b>
Charges for services	34,615	-	34,615
Investment earnings	3,811	-	3,811
Miscellaneous	1,129	-	1,129
<b>Total Revenues</b>	<b>\$ 222,924</b>	<b>\$ (16,799)</b>	<b>\$ 206,125</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Water quality</b>			
Administrative salaries and benefits	\$ 33,771	\$ (1,489)	\$ 32,282
Administrative supplies	2,826	899	3,725
Grant-related costs	182,456	-	182,456
Depreciation	-	7,236	7,236
<b>Total Expenditures/Expenses</b>	<b>\$ 219,053</b>	<b>\$ 6,646</b>	<b>\$ 225,699</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 3,871</b>	<b>\$ (23,445)</b>	<b>\$ (19,574)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>(5,934)</b>	<b>119,431</b>	<b>113,497</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ (2,063)</b>	<b>\$ 95,986</b>	<b>\$ 93,923</b>

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

**EXHIBIT 2  
(Continued)**

**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, 2006**

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

**Net Change in Fund Balance** **\$ 3,871**

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. Also, in the statement of activities, only the gain or loss on disposal of capital assets is reported; whereas, in the General Fund, the proceeds from the disposal increase financial resources. The Board had no capital outlay in 2006. The adjustment is for depreciation expense and net book value of the assets disposed of.

Current year depreciation	(7,236)
Net book value of assets disposed of	(899)

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 net decrease (increase) in compensated absences payable.

Compensated absences - January 1	2,853
Compensated absences - December 31	(1,364)

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 (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	33,843
Deferred revenue - January 1	(50,642)

**Change in Net Assets of Governmental Activities** **\$ (19,574)**

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

---

---

1. Summary of Significant Accounting Policies

The Southeast Minnesota Water Resources Board financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. 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.

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.

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.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies (Continued)

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 as available if collected within 60 days after the end of the current period. Grants and interest are all considered 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 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.

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 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.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

2. 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.

Property, plant, and equipment of the Board are 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 of the financial statements. A liability for this amount is not reported in the General Fund.

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.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

---

1. Summary of Significant Accounting Policies

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

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.

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, 2006, the Board had \$132,845 on deposit with Olmsted County. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

2. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Machinery, furniture, and equipment	\$ 124,230	\$ -	\$ 17,042	\$ 107,188
Less: accumulated depreciation for				
Machinery, furniture, and equipment	<u>52,588</u>	<u>7,236</u>	<u>16,143</u>	<u>43,681</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 71,642</u>	<u>\$ (7,236)</u>	<u>\$ 899</u>	<u>\$ 63,507</u>

Depreciation expense of \$7,236 was charged to the water quality function.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

---

---

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Change in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Compensated Absences - Beginning Balance	\$ 2,853
Additions	4,709
Deductions	<u>(6,198)</u>
Compensated Absences - Ending Balance	<u>\$ 1,364</u>
Amount Estimated to be Paid Out Within the Year	<u>\$ 98</u>

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Southeast Minnesota Water Resources 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. 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.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

---

3. 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. 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 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 internet at [www.mnpera.org](http://www.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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the 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 Board makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

---

3. Pension Plans

B. Funding Policy (Continued)

members and Coordinated Plan members are required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. The Board is required to contribute the following percentages of annual covered payroll:

In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00
In 2007	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25

The Board's contributions for the years ending December 31, 2006, 2005, and 2004, were \$5,126, \$9,668, and \$9,021, respectively, equal to the contractually required contribution for each year as set by state statute.

4. 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 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.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

---

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of 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. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 and \$400,000 per claim in 2006 and 2007, respectively. Should the MCIT Workers' Compensation Division liability exceed assets, MCIT may assess the Board in a method and amount to be determined by MCIT.

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

5. Fund Balance Deficit

The Water Resources Fund had a deficit fund balance of \$2,063 as of December 31, 2006. The deficit can be attributed to the shift from receiving advances on grants to receiving reimbursements on grants. The Board is considering various options to increase the fund balance such as increasing the dues level at the time of budget review and approval and allocating a larger percentage of grant funds to administrative costs.



This page was left blank intentionally.

**SOUTHEAST MINNESOTA WATER RESOURCES BOARD  
WINONA, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING**

**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.

**ITEMS ARISING THIS YEAR**

06-1 Preparation of Financial Statements and Notes

The Southeast Minnesota Water Resources Board is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Board's management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the Southeast Minnesota Water Resources Board has 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. Accordingly, the Board's ability to

prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the Board's internal control. This condition was caused by the Southeast Minnesota Water Resources Board's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. Also, the Board has no written policies and procedures to be followed in the preparation of financial statements.

We recommend that if the Southeast Minnesota Water Resources Board still intends to have staff from the Office of the State Auditor assist in preparation of the annual financial statements, it identify and train individuals to obtain the expertise to sufficiently review, understand, and approve the Southeast Minnesota Water Resources Board's financial statements, including notes. We also recommend the Board adopt clearly documented procedures for all accounting and financial reporting activities.

#### 06-2 Audit Adjustment

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 of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

Adjustments were needed to record due from other governments and deferred revenue for grants and interest income. These proposed adjustments are reviewed and approved by the Director and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the Board's internal control.

We recommend the Southeast Minnesota Water Resources Board establish internal procedures to ensure the general ledger includes all accruals or is adjusted to include all accruals in a working trial balance.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

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, 2006, and have issued our report thereon dated February 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### 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 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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Board'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 Board's

financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control over financial reporting. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-1, 06-1, and 06-2 to be significant deficiencies in 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 Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-2 to be a material weakness.

### 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 Members, management, and others within the Southeast Minnesota Water Resources Board and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 8, 2008