

**NORTH FORK CROW RIVER  
WATERSHED DISTRICT  
Brooten, Minnesota**

**COMMUNICATIONS LETTER**

**Year Ended December 31, 2014**

**NORTH FORK CROW RIVER WATERSHED DISTRICT**

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**REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE  
AUDIT OF THE FINANCIAL STATEMENTS**

Board of Managers  
North Fork Crow River Watershed District  
Brooten, Minnesota

In planning and performing our audit of the financial statements of the North Fork Crow River Watershed District, Brooten, Minnesota, as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

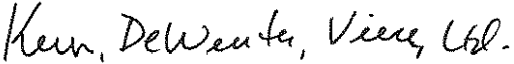
Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. The material weaknesses identified are stated within this letter.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated May 21, 2015, on such statements.

This communication is intended solely for the information and use of management and the Board of Managers, others within the District and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
May 21, 2015

# **NORTH FORK CROW RIVER WATERSHED DISTRICT**

## **MATERIAL WEAKNESSES**

**December 31, 2014**

### **LACK OF SEGREGATION OF ACCOUNTING DUTIES**

The District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. In order to have appropriate segregation of accounting duties, the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording and processing of transactions, reconciliation and reporting of transactions and financial information and custody of assets.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

We recommend management, along with the Board of Managers, remain aware of this situation and continually monitor the accounting system including changes that occur.

### **PREPARATION OF FINANCIAL STATEMENTS**

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in an organization of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

## **NORTH FORK CROW RIVER WATERSHED DISTRICT**

### **REQUIRED COMMUNICATION**

**December 31, 2014**

We have audited the financial statements of the District for the year ended December 31, 2014, and have issued our report dated May 21, 2015. Professional standards require that we provide you with the following information related to our audit.

#### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS***

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion 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 District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

#### **PLANNED SCOPE AND TIMING OF THE AUDIT**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

#### **QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2014. 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 proper period.

## **NORTH FORK CROW RIVER WATERSHED DISTRICT**

### **REQUIRED COMMUNICATION**

**December 31, 2014**

#### **QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

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 estimate affecting the financial statements was:

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### **DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, a disagreement with management is 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 requested certain representations from management which were provided to us in the management representation letter.

#### **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.

**NORTH FORK CROW RIVER WATERSHED DISTRICT**

**REQUIRED COMMUNICATION**

**December 31, 2014**

**OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

# NORTH FORK CROW RIVER WATERSHED DISTRICT

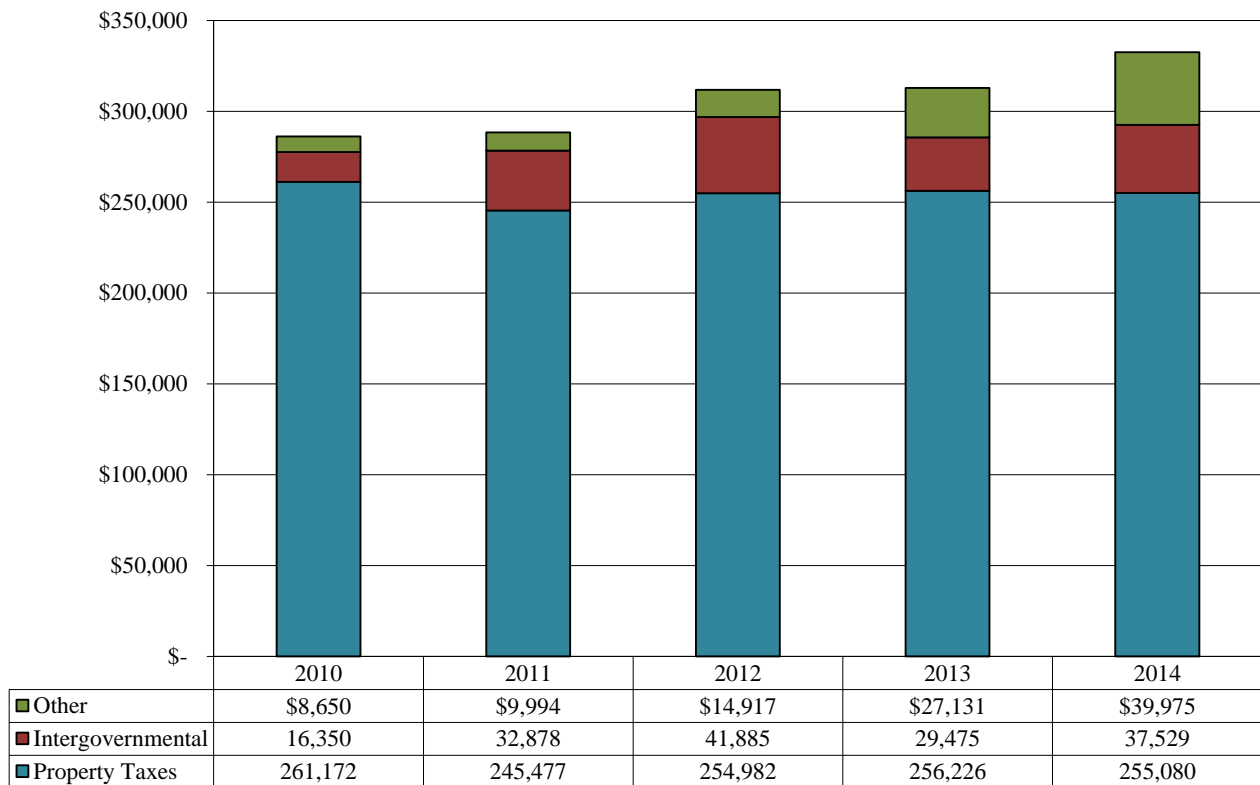
## FINANCIAL ANALYSIS December 31, 2014

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past three years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

### ADMINISTRATIVE FUND

Total revenues in the Administrative Fund increased from 2013 to 2014. Property taxes remained flat, as the Administrative Fund levy remained consistent with the 2013 levy. Intergovernmental revenues increased \$ 8,054 due to receiving more grant revenues in 2014. An increase of \$ 12,844 was noted in Other Revenue. The increase was mostly due to contributions received as part of their AIS grant they received during the current year.

**Administrative Fund Revenues**





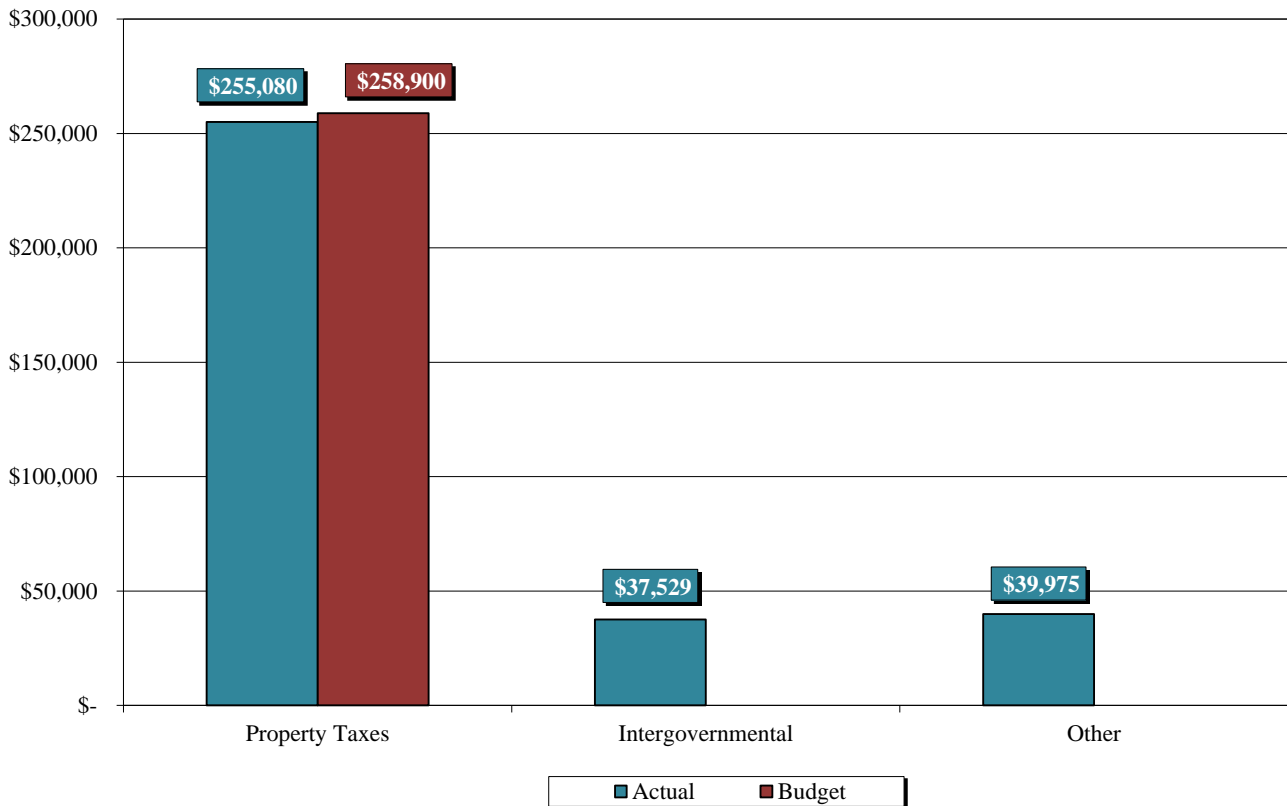
# NORTH FORK CROW RIVER WATERSHED DISTRICT

## FINANCIAL ANALYSIS December 31, 2014

### ADMINISTRATIVE FUND

In 2014, Administrative Fund revenues were \$ 73,684 over budget. Property taxes were under budget \$ 3,820 as the District budgets at the full levy amount and does not budget for the effect of delinquent amounts or state credits. Intergovernmental revenues and other revenues, including grants, income, contributions and agricultural market value credits, are not budgeted for as the amounts vary each year and are not predicitable at the time the District's budget is determined.

**2014 Administrative Fund Revenues Budget and Actual**



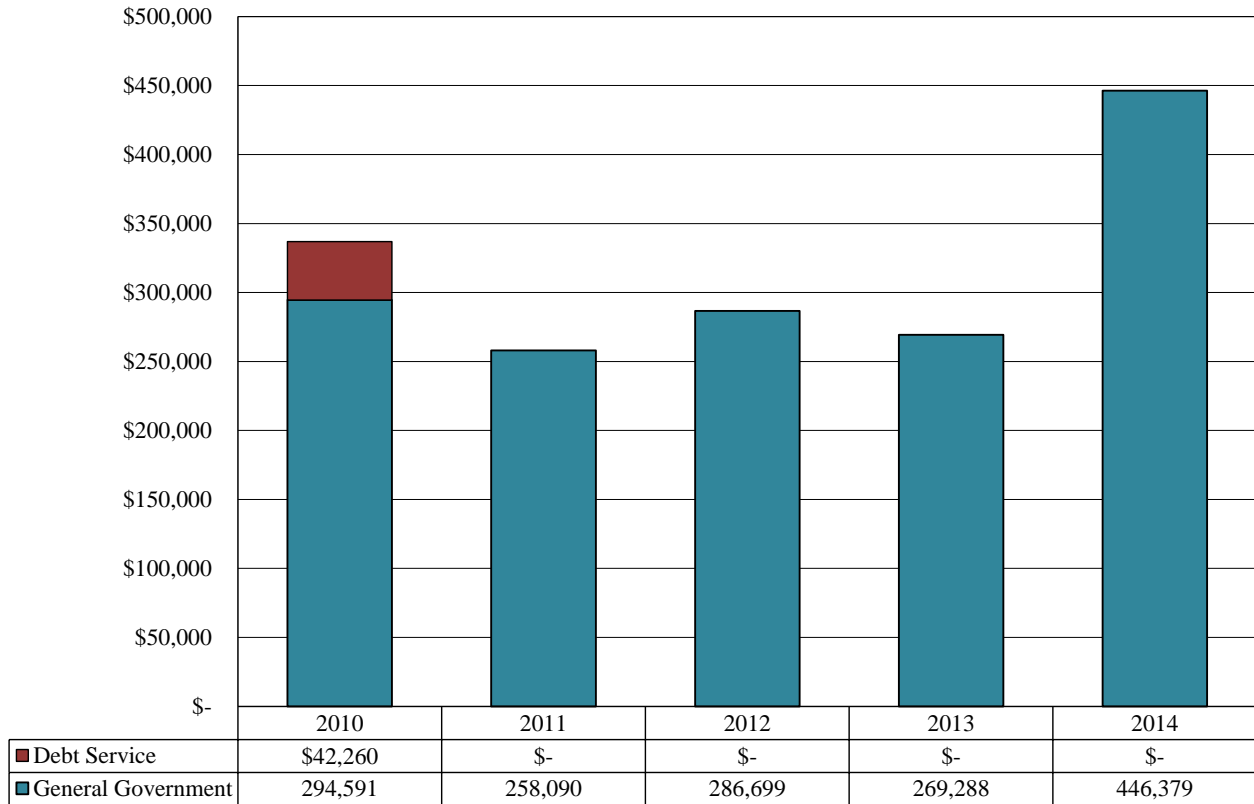
# NORTH FORK CROW RIVER WATERSHED DISTRICT

## FINANCIAL ANALYSIS December 31, 2014

### ADMINISTRATIVE FUND

Expenditures increased \$ 177,091, or 65.8%, from 2013 to 2014 due to the purchase of a new office building at the end of 2014. In addition, the District also updated its office equipment in 2014 when they moved into the new building. The District also had more seasonal employees during the year that were hired on a part-time basis for the AIS grant project.

**Administrative Fund Expenditures**



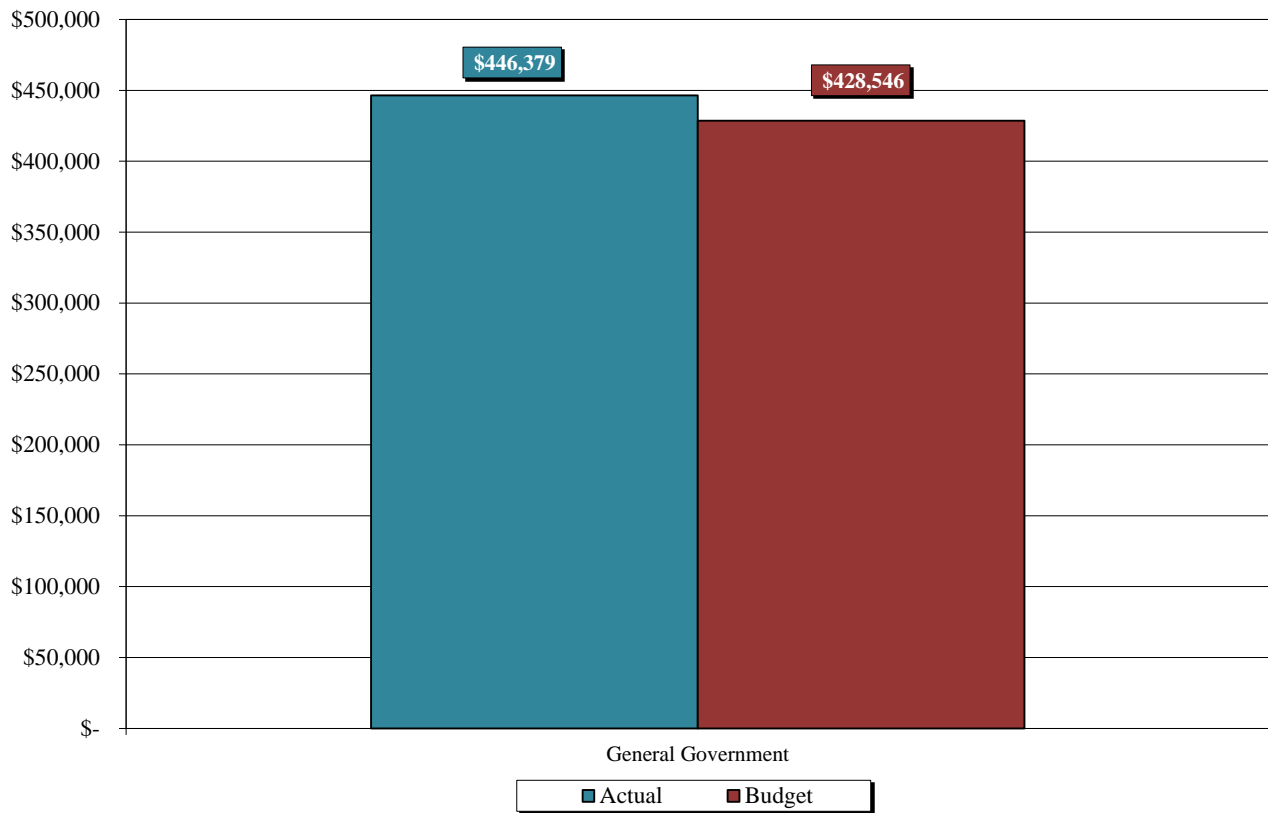
# NORTH FORK CROW RIVER WATERSHED DISTRICT

## FINANCIAL ANALYSIS December 31, 2014

### ADMINISTRATIVE FUND

Expenditures were over budget in 2014 by \$ 17,833. The District only budgets for the expenditures that will be covered by the levy and not what will be covered by grants or other funding received during the year. Most of the additional expenses were related to seasonal workers that were hired as part of the AIS grant received during the year. The District made a budget amendment during the year for the cost of the new building and related expenditures.

**2014 Administrative Fund Expenditures Budget and Actual**



# NORTH FORK CROW RIVER WATERSHED DISTRICT

## EMERGING ISSUES

December 31, 2014

### Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Internal Control Integrated Framework** – COSO has issued an updated integrated framework for internal control. The update is expected to make the integrated internal control framework easier to use and apply. In addition, the update takes into account globalization of businesses today and its interdependence on technology. The updated framework superseded the original framework beginning January 1, 2015.
- **Accounting Standard Update – Accounting for Pensions** – Governmental Accounting Standards Board (GASB) has issued new statements relating to accounting and disclosures for pension. The new statements require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. In addition, the statement includes new requirements for required supplementary information and more extensive footnote disclosures.

The following are extensive summaries of each of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your District.

### COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK

In 1992, the Committee on Sponsoring Organizations of the Treadway Commission (COSO) developed an internal control framework that has been adopted and used by entities worldwide. In 2013, COSO finalized and released an updated integrated internal control framework. The update is expected to make the integrated framework easier to use and apply. In addition, the update takes into account, the business environment of today and the reliance on and interdependence of technology within business systems.

The internal control update is not changing the core definition of internal control, the three categories of objectives or the five components of internal control.

COSO defines internal control as a process, affected by an entity's board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of the three objectives, as follows: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

1. Internal control is a process. It is a means to an end, not an end in itself.
2. Internal control is not merely documented by policy manuals and forms. Rather, it is put in by people at every level of an organization.
3. Internal control can provide only reasonable assurance, not absolute assurance, to an entity's management and board.
4. Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

# **NORTH FORK CROW RIVER WATERSHED DISTRICT**

## **EMERGING ISSUES**

**December 31, 2014**

### **COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK (CONTINUED)**

The five components of internal control, which are unchanged, are as follows:

1. Control Environment - integrity, ethics, management style, etc.
2. Risk Assessment - identification and analysis of relevant risks
3. Control Activities - policies, procedures and activities, including segregation of duties
4. Information and Communication - ensure information effectively flows up, down and across the organization, both internally and externally
5. Monitoring Activities - assessment of the systems performance over time

The updated framework has changed to address the changes in business and operating environments, such as globalization of markets and operations, greater complexities in businesses, reliance on evolving technologies and expectations relating to preventing and detecting fraud. In addition, principles of effective internal controls have been added to each of the components of internal control as follows:

#### **Control Environment:**

1. Demonstrates a commitment to integrity and ethical values.
2. The board of directors is independent from management and exercises oversight responsibility of the performance of internal controls.
3. Management establishes structure, reporting lines, authority and responsibility.
4. Demonstrates a commitment to attract, develop and retain competent individuals.
5. Enforces accountability for individual's internal control responsibilities.

#### **Risk Assessment:**

6. Specifies suitable objectives with sufficient clarity.
7. Identifies and analyzes risk as a basis for how risks should be managed.
8. Assesses the potential for fraud risk.
9. Identifies and analyzes significant changes that could impact the system of internal controls.

#### **Control Activities:**

10. Selects and develops control activities that contribute to the mitigation of risks.
11. Selects and develops general controls over technology.
12. Deploys control activities through policies that establish what is expected and procedures that put policies into place.

#### **Information and Communication:**

1. Uses relevant information to support the functioning of other components of internal control.
2. Communicates information internally, including objectives and responsibilities necessary to support the internal controls.
3. Communicates with external parties regarding matters affecting internal control.

#### **Monitoring Activities:**

4. Conducts ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
5. Evaluates and communicates deficiencies to those parties responsible for corrective actions.

## NORTH FORK CROW RIVER WATERSHED DISTRICT

### EMERGING ISSUES

December 31, 2014

#### **COSO PROJECT – INTERNAL CONTROL INTEGRATED FRAMEWORK (CONTINUED)**

The updated framework also has additional examples relevant to operation, compliance and reporting objectives added.

While COSO integrated internal control framework is very extensive, this is only a short summary of some of the changes of the updated framework. The updated framework superseded the original framework beginning January 1, 2015.

#### **ACCOUNTING STANDARD UPDATE – ACCOUNTING FOR PENSIONS**

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* – is an amendment of GASB No. 68.

- GASB 68 will require presentation of the local government’s proportionate share of the pension plan’s Net Pension Liability to be reported on the government-wide statement of net position and the proprietary fund statements of net position – based on last year’s employer contributions
- The Net Pension Liability is measured as the total pension liability less the amount of the pension plan’s fiduciary net position – Public Employee Retirement Association (PERA) currently estimating this around \$6 – 7 billion each
- Governmental Funds will present pension expenditures equal to the total of 1) amounts paid by employer to the pension plan and 2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources (i.e. No Change)
- PERA have been proactive in steps toward implementation and the outlook for reporting to members appears good, based on current plans - the hope is that most of the implementation will be a “plug-in” of PERA generated data
- PERA both have a June 30 fiscal year-end – this is the measurement date you will utilize for your presentation in your June 30 financial statements twelve months subsequent to that date
- Other Deferred Inflows/Outflows will include: differences between expected and actual economic experience and investment earnings, changes in assumptions and changes in employer proportion and difference between contributions and proportionate share of pension expense
- Required Supplementary Information will be two separate schedules – Schedule of Changes in Net Pension Liability and Related Ratios & Schedule of Contributions - 10-year presentation for each with notes
- GASB 71 clarifies that in the year of implementation you must determine the deferred outflows associated with pension contributions made subsequent to the measurement date – even if it is not practical to determine the other deferred inflows and outflows

## **NORTH FORK CROW RIVER WATERSHED DISTRICT**

### **EMERGING ISSUES**

**December 31, 2014**

#### **ACCOUNTING STANDARD UPDATE – ACCOUNTING FOR PENSIONS (CONTINUED)**

##### **PERA Plan:**

- Perform annual actuarial valuations to determine funded status and liabilities
- Require plan actuary to calculate collective amount of items requiring deferred treatment
- Engage external auditor or audit actuarial census data and schedule of employer's proportionate share
- Communicate results to the local governments
- Provide RSI and suggested footnotes

##### **Local Impacts:**

- Your District's proportionate share of the plan's net pension liability will be recognized as a liability on your District's government-wide statements. As of December 31, 2014, PERA has estimated the liability for your District to be \$ 122,135, based on the total unfunded liability as of their June 30, 2014 year end.
- Expenditures will continue to be tracked in the fund statements for your statutory contributions, but a reconciling item will be needed to adjust these contributions with your government-wide expenses which will be represented by the change in the net pension liability
- As a result, your financial statements/financial position will be immediately impacted by funding shortfalls at the pension plan
- Additional RSI presenting 10 years of information regarding net pension liability, required & actual contributions and related ratios
- Adds more extensive note disclosures, including sensitivity analysis of investment return assumption
- Requires employer to track annual balances of deferred outflows of resources and inflows of resources.
- Must describe signification assumptions and other inputs used to measure total pension liability.