

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MISSISSIPPI HEADWATERS BOARD**  
**WALKER, MINNESOTA**

FOR THE TWO YEARS ENDED JUNE 30, 2005

## **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.

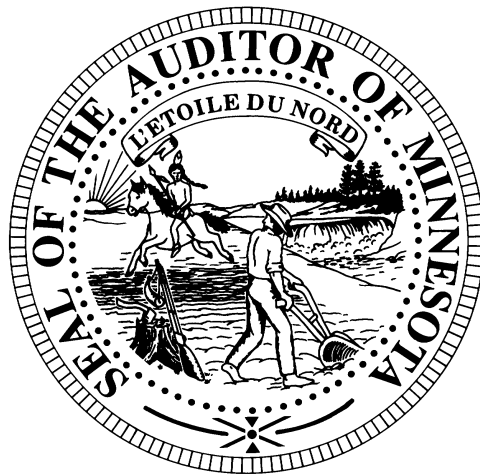
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

**For The Two Years Ended June 30, 2005**



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

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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

**ORGANIZATION  
JUNE 30, 2005**

<b>Board</b>	<b>Representing</b>
Brian Napstad	Aitkin County
Jack Frost	Beltrami County
Virgil Foster	Cass County
Dean Newland	Clearwater County
Ed Larsen	Crow Wing County
Swede Nelson	Hubbard County
Russell Klegstad	Itasca County
William Block	Morrison County

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### INDEPENDENT AUDITOR'S REPORT

#### Mississippi Headwaters Board

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mississippi Headwaters Board as of and for the two years ended June 30, 2005, 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, each major fund, and the aggregate remaining fund information of the Mississippi Headwaters Board as of June 30, 2005, and the respective changes in financial position thereof for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.5. to the financial statements, the Mississippi Headwaters 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 two years ended June 30, 2005. These statements result in a change in the format and content of the basic financial statements

The Mississippi Headwaters 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.

The budgetary comparison schedule presented as Schedule 1 in the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion in it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mississippi Headwaters Board's basic financial statements. The combining statements presented as Statements 1 and 2 in the accompanying financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 18, 2005

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005**

**Assets**

Cash and pooled investments	\$	49,355
Petty cash and change funds		40
Investments		70,814
Accrued interest receivable		73
		<hr/>
<b>Total Assets</b>	<b>\$</b>	<b>120,282</b>

**Liabilities**

Accounts payable	\$	388
Salaries payable		3,326
Due to other governments		279
		<hr/>
<b>Total Liabilities</b>	<b>\$</b>	<b>3,993</b>

**Net Assets**

Unrestricted	<b>\$</b>	<b>116,289</b>
		<hr/> <hr/>

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE TWO YEARS ENDED JUNE 30, 2005**

	<b>Expenses</b>	<b>Program Revenues Operating Grants and Contributions</b>	<b>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</b>
<b><u>Functions/Programs</u></b>			
<b>Governmental activities</b>			
Conservation of natural resources	<u>\$ 94,799</u>	<u>\$ 134,822</u>	<u>\$ 40,023</u>
 <b>General Revenues</b>			
Grants and contributions not restricted to specific programs		\$ 26,724	
Investment income		741	
Miscellaneous		9,587	
		<b>\$ 37,052</b>	
			<b>\$ 77,075</b>
			<b>39,214</b>
			<b>\$ 116,289</b>

**FUND FINANCIAL STATEMENTS**

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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 47,586	\$ 1,769	\$ 49,355
Petty cash and change funds	40	-	40
Investments	70,814	-	70,814
Accrued interest receivable	73	-	73
<b>Total Assets</b>	<b>\$ 118,513</b>	<b>\$ 1,769</b>	<b>\$ 120,282</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 388	\$ -	\$ 388
Salaries payable	3,326	-	3,326
Due to other governments	279	-	279
<b>Total Liabilities</b>	<b>\$ 3,993</b>	<b>\$ -</b>	<b>\$ 3,993</b>
<b>Fund Balances</b>			
Unreserved			
Undesignated	\$ 114,520	\$ -	\$ 114,520
Unreserved, reported in nonmajor special revenue funds	-	1,769	1,769
<b>Total Fund Balances</b>	<b>\$ 114,520</b>	<b>\$ 1,769</b>	<b>\$ 116,289</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 118,513</b>	<b>\$ 1,769</b>	<b>\$ 120,282</b>

**Note:**

Because the Mississippi Headwaters Board has no capital assets, deferred revenue, or long-term liabilities, the fund financial statements are the same as the government-wide statements.

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

**EXHIBIT 4**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE TWO YEARS ENDED JUNE 30, 2005**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Intergovernmental	\$ 134,482	\$ 27,064	\$ 161,546
Investment earnings	741	-	741
Miscellaneous	9,587	-	9,587
<b>Total Revenues</b>	<b>\$ 144,810</b>	<b>\$ 27,064</b>	<b>\$ 171,874</b>
<b>Expenditures</b>			
<b>Current</b>			
Conservation	83,349	11,450	94,799
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 61,461</b>	<b>\$ 15,614</b>	<b>\$ 77,075</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 16,366	\$ 1,252	\$ 17,618
Transfers out	(1,252)	(16,366)	(17,618)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 15,114</b>	<b>\$ (15,114)</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 76,575</b>	<b>\$ 500</b>	<b>\$ 77,075</b>
<b>Fund Balance - July 1, 2003</b>	<b>37,945</b>	<b>1,269</b>	<b>39,214</b>
<b>Fund Balance - June 30, 2005</b>	<b>\$ 114,520</b>	<b>\$ 1,769</b>	<b>\$ 116,289</b>

**Note:**

Because the Mississippi Headwaters Board has no capital assets, deferred revenue, or long-term liabilities, the fund financial statements are the same as the government-wide statements.



**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE TWO YEARS ENDED JUNE 30, 2005**

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1. Summary of Significant Accounting Policies

The Mississippi Headwaters Board's statements are prepared in accordance with generally accepted accounting principles (GAAP) for the two years ended June 30, 2005. 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 Mississippi Headwaters 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*.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Board has elected to implement all provisions of the statement in the current year, except a Management's Discussion and Analysis is not included.

A. Financial Reporting Entity

The Mississippi Headwaters Board was established in 1980 as a joint powers board of Aitkin, Beltrami, Cass, Clearwater, Crow Wing, Hubbard, Itasca, and Morrison Counties. The Board was established to protect and preserve the natural, cultural, scenic, scientific, and recreational values of the first 400 miles of the Mississippi River. The Board has the powers, duties, and privileges granted to it under Minn. Stat. §§ 103F.361-.377. The Board is organized with one Commissioner from each of the participating counties. The Board elects a chair, vice chair, and secretary-treasurer in January of each year.

Cass County, as fiscal agent, reports the transactions of the Board in an agency fund on its annual financial statements.

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the Board. These statements include the financial activities of the overall Board.

The government-wide statement of net assets (a) is presented on a consolidated basis; and (b) is reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Board's net assets are unrestricted.

The statement of activities demonstrates the degree to which the direct expenses of each function of the Board's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Board's funds. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Board reports the following major governmental fund:

The General Fund is the Board's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide financial statements 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 financial statements 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. Charges for services and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

D. Assets and Liabilities

1. Cash and Pooled Investments

The Board's available cash balances are pooled and invested with Cass County. The Board's cash balances and investments are at fair value based on quoted market prices. Additional disclosures defining cash and pooled investments can be found in the Cass County annual financial report.

2. Capital Assets

Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or 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. The Board currently holds no capital assets over the \$5,000 capitalization threshold.

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

3. Due To Other Governments

Due to other governments consists of amounts payable to Cass County for fiscal agent fees.

4. 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.

5. Restatement

The Board implemented GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Implementation of this new standard required the Board to change the format and contents of the financial statements. Implementation of the new standard required fund balance to be restated as net assets.

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. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral. Minn. Stat. §§ 118A.04-.05 authorize the types of securities available to the Board for investment.

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The Board deposits all its cash with its fiscal agent, Cass County. Additional disclosures, as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*; and Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are disclosed in Cass County's annual financial report.

2. Receivables

Receivables as of June 30, 2005, for the Mississippi Headwaters Board's governmental activities consist of interest in the amount of \$73.

B. Interfund Transfers

Interfund transfers made during the two years ending June 30, 2005, are as follows:

Transfers to General Fund from Special Projects Special Revenue Fund	\$ 16,366	To close out LCMR Grant
Transfers to Special Projects Special Revenue Fund from General Fund	<u>1,252</u>	To close out NPS Grant
Total Interfund Transfers	<u>\$ 17,618</u>	

C. Liabilities

1. Payables

Payables at June 30, 2005, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 388
Salaries	3,326
Due to other governments	<u>279</u>
Total Payables	<u>\$ 3,993</u>

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

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2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

All the Mississippi Headwaters Board's funds and the government-wide 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. As of June 30, 2005, there is no deferred revenue.

3. 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. To manage these risks, the Board has joined the Minnesota Counties Insurance Trust (MCIT). The Board retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past five 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 per claim in 2004 and \$760,000 per claim for plan year 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the Board in a method and amount to be determined by the MCIT.

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Plan Description

All employees of the Mississippi Headwaters Board are covered by defined benefit 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.

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. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent of average salary for Coordinated Plan members for each year of service.

For 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.

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. 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](http://mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint 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 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 members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Authority 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 June 30, 2005, 2004, and 2003, were \$545, \$854, and \$3,321, respectively, equal to the contractually required contributions for each year as set by state statute.



**REQUIRED SUPPLEMENTARY INFORMATION**

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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE TWO YEARS ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
<b>Intergovernmental</b>				
State				
PERA aid	\$ -	\$ -	\$ 724	\$ 724
Department of Natural Resources	130,000	130,000	109,758	(20,242)
Local				
Other local grants	24,000	24,000	24,000	-
<b>Total intergovernmental</b>	<b>\$ 154,000</b>	<b>\$ 154,000</b>	<b>\$ 134,482</b>	<b>\$ (19,518)</b>
Investment earnings	1,500	1,500	741	(759)
Miscellaneous	4,000	4,000	9,587	5,587
<b>Total Revenues</b>	<b>\$ 159,500</b>	<b>\$ 159,500</b>	<b>\$ 144,810</b>	<b>\$ (14,690)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Salaries and benefits	\$ 66,276	\$ 66,276	\$ 46,821	\$ 19,455
Per diems	12,872	12,872	10,300	2,572
Professional services	11,200	11,200	6,673	4,527
Office operations	21,252	20,752	11,426	9,326
Mileage	10,000	10,500	7,706	2,794
Furniture and equipment	2,000	2,000	-	2,000
Meeting expense	-	-	73	(73)
River stewardship	6,400	6,400	350	6,050
Other	3,400	-	-	-
<b>Total Expenditures</b>	<b>\$ 133,400</b>	<b>\$ 130,000</b>	<b>\$ 83,349</b>	<b>\$ 46,651</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 26,100</b>	<b>\$ 29,500</b>	<b>\$ 61,461</b>	<b>\$ 31,961</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 16,366	\$ 16,366
Transfers out	-	-	(1,252)	(1,252)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,114</b>	<b>\$ 15,114</b>
<b>Net Change in Fund Balance</b>	<b>\$ 26,100</b>	<b>\$ 29,500</b>	<b>\$ 76,575</b>	<b>\$ 47,075</b>
<b>Fund Balance - July 1, 2003</b>	<b>37,945</b>	<b>37,945</b>	<b>37,945</b>	<b>-</b>
<b>Fund Balance - June 30, 2005</b>	<b>\$ 64,045</b>	<b>\$ 67,445</b>	<b>\$ 114,520</b>	<b>\$ 47,075</b>

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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE TWO YEARS ENDED JUNE 30, 2005**

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Budgetary Information

The Mississippi Headwaters Board adopts estimated revenue and expenditure budgets for the General Fund. Comparisons of estimated revenues and expenditures to actual are presented for the General Fund.

The budget may be amended or modified at any time by the Board. The expenditure budget was decreased by \$3,400.

Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles.

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**SUPPLEMENTARY INFORMATION**

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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

**NONMAJOR SPECIAL REVENUE FUNDS**

The River Defense Network Fund is used to account for grant proceeds earmarked to monitor and improve the quality of the river's water.

The Special Projects Fund is used to account for a variety of grants from federal and state governments and private foundations for a variety of projects.

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MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA

*Statement 1*

COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2005

	<u>River Defense Network</u>	<u>Special Projects</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	<u>\$ 1,769</u>	<u>\$ -</u>	<u>\$ 1,769</u>
<u>Fund Balances</u>			
Unreserved Undesignated	<u>\$ 1,769</u>	<u>\$ -</u>	<u>\$ 1,769</u>

**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE TWO YEARS ENDED JUNE 30, 2005**

	River Defense Network	Special Projects	Total
<b>Revenues</b>			
<b>Intergovernmental</b>			
Federal			
U.S. Environmental Protection Agency Nonpoint Source Implementation	\$ -	\$ 6,493	\$ 6,493
State			
Department of Natural Resources	-	18,571	18,571
Local			
Local grants for River Defense Network	2,000	-	2,000
<b>Total Revenues</b>	<b>\$ 2,000</b>	<b>\$ 25,064</b>	<b>\$ 27,064</b>
<b>Expenditures</b>			
<b>Current</b>			
<b>Conservation of natural resources</b>			
Professional services	\$ 1,500	\$ -	\$ 1,500
Nonpoint source grant projects	-	9,950	9,950
<b>Total Expenditures</b>	<b>\$ 1,500</b>	<b>\$ 9,950</b>	<b>\$ 11,450</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 500</b>	<b>\$ 15,114</b>	<b>\$ 15,614</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ -	\$ 1,252	\$ 1,252
Transfers out	-	(16,366)	(16,366)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ (15,114)</b>	<b>\$ (15,114)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 500</b>	<b>\$ -</b>	<b>\$ 500</b>
<b>Fund Balance - July 1, 2003</b>	<b>1,269</b>	<b>-</b>	<b>1,269</b>
<b>Fund Balance - June 30, 2005</b>	<b>\$ 1,769</b>	<b>\$ -</b>	<b>\$ 1,769</b>



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**MISSISSIPPI HEADWATERS BOARD  
WALKER, MINNESOTA**

**Schedule 2**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED JUNE 30, 2005

**I. INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

95-1 **Segregation of Duties**

Due to the limited number of office personnel at the Mississippi Headwaters Board, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in an organization the size of the Board; however, the governing board should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend the Board be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures.

**Client's Response:**

*The Mississippi Headwaters Board is aware of accounting function procedures that the Mississippi Headwaters Board (MHB) staff and Cass County staff follow in their accounting of MHB financial matters. MHB will continue to emphasize the need for the management of the Board to segregate accounting functions whenever possible and to closely supervise those areas where proper segregation of duties cannot be achieved.*

## II. MANAGEMENT PRACTICES

### PREVIOUSLY REPORTED ITEMS RESOLVED

#### **Board Minutes (01-1)**

The Board minutes are the official records of the Mississippi Headwaters Board. Most of the monthly minutes were not signed by the person preparing the minutes or the Board chair.

#### **Resolution**

All Board minutes were signed by either the person preparing the minutes or the Board chair.

#### **Content of Board Minutes (03-1)**

The Board minutes lacked sufficient documentation of disbursement approval, financial support, approved projects, budgets and budget amendments, and staff changes.

#### **Resolution**

The content of the Board minutes is in greater detail outlining the above items.

#### **River Defense Network Fund Closeout (03-2)**

The Board discontinued providing fiscal agent services to the River Defense Network (RDN) organization during 2003. The Board transferred \$6,430 to the new fiscal agent, but left \$1,269 in the fund on its records. The proper disposition of the balance is unknown. We recommended the Board determine the correct final disposition of the \$1,269 balance remaining in the River Defense Network Special Revenue Fund and adjust accordingly.

#### **Resolution**

The funds transferred to the new fiscal agent were transferred back to the Mississippi Headwaters Board. The Board is again the fiscal agent for these funds.





PATRICIA ANDERSON  
STATE AUDITOR

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

### Mississippi Headwaters Board

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mississippi Headwaters Board as of and for the two years ended June 30, 2005, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### Internal Control Over Financial Reporting

The Mississippi Headwaters Board is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Mississippi Headwaters Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 Mississippi Headwaters 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 Recommendations as item 95-1.

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 believe the reportable condition indicated above is not 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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. We did not test for compliance in contracting and bidding, because the Mississippi Headwaters Board did not enter into any applicable contracts, and public indebtedness, because the Board does not have any bonded debt.

The results of our tests indicate that, for the items tested, the Mississippi Headwaters Board complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 18, 2005