

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2013

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
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CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
ORGANIZATION

Larry Kittelson, Chairperson

Dawn Schuler, Vice Chairperson

Steve Sunderland, Secretary

Calin Eisenlohr, Treasurer

Scott Roelofs, Supervisor

INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
Chippewa Soil and Water Conservation District  
Montevideo, Minnesota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and major fund information of Chippewa Soil and Water Conservation District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***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 major fund of Chippewa Soil and Water Conservation District as of December 31, 2013, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chippewa Soil and Water Conservation District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2014, on our consideration of Chippewa Soil and Water Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chippewa Soil and Water Conservation District's internal control over financial reporting and compliance.

Dana F. Cole & Company, LLP

Montevideo, Minnesota  
April 8, 2014

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Chippewa Soil and Water Conservation District's (SWCD) annual financial report presents our discussion and analysis of the Organization's financial performance during the year that ended December 31, 2013. Please read it in conjunction with the Organization's financial statements, which immediately follow this section.

#### FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 are as follows:

- The District's net position decreased due to the expenditures exceeding the revenues. Expenditures exceeded revenues due to hiring of additional staff.
- Overall fund level revenues totaled \$199,425, which was a \$25,507 decrease from 2012.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts—Independent Auditors' Report; required supplementary information, which includes the MD&A (this section); and the basic financial statements. The basic financial statements include the General Fund Balance Sheet and Governmental Activities – Statement of Net Position, General Fund Statement of Revenues, Expenditures and Changes in Fund Balance and Governmental Activities – Statement of Activities, and Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance Budgetary Comparison.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

This MD&A is intended to serve as an introduction to the basic financial statements. Chippewa Soil and Water Conservation District's basic financial statements consist of three statements, which combine government-wide financial statements and fund financial statements, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the first two statements presents governmental fund data, which focus on how money flows in and out and the balances left at year-end that are available for spending. These columns are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. This column provides a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each of the first two statements presents the Statement of Net Position and the Statement of Activities, which provide information about the activities as a whole and present a longer-term view of finances. These columns tell how these services were financed in the short term as well as what remains for future spending. These columns include all of the assets and liabilities of including long-term activity. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The budgetary statement compares the approved budget to the fund financial statements.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF SWCD AS A WHOLE

Net Position

The net position was \$421,397 on December 31, 2013.

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and investments	403,831	457,183
Accounts receivable	1,580	345
Due from other governments	10,382	14,963
Interest receivable	550	1,265
Capital assets	37,703	42,665
Total assets	<u>454,046</u>	<u>516,421</u>
<b>Liabilities</b>		
Current liabilities		
Deferred revenue	23,340	24,137
Current portion of long-term	2,121	2,087
Long-term liabilities		
Postemployment benefits	7,188	7,074
Total liabilities	<u>32,649</u>	<u>33,298</u>
<b>Net position</b>		
Net investment in capital assets	37,703	42,665
Unrestricted	383,694	440,458
Total net position	<u>421,397</u>	<u>483,123</u>

Change in Net Position

Governmental Activities for the Fiscal Year Ended December 31:

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Intergovernmental	151,683	173,692
Charges for services	46,050	47,166
Investment earnings	1,692	4,074
Total revenues	<u>199,425</u>	<u>224,932</u>
<b>Expenditures</b>		
Conservation	261,151	260,593
Deficiency of revenues under expenditures	(61,726)	(35,661)
Net position - January 1	483,123	518,784
Net position - December 31	<u>421,397</u>	<u>483,123</u>

Intergovernmental revenue decreased due to no federal revenue in 2013. In 2012, there was federal revenue of \$19,470.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

THE SWCD'S FUNDS

As SWCD completed the year, its general fund reported a combined fund balance of \$393,003. Included in this amount is this year's total decrease in fund balance of \$56,616.

General Fund Budgetary Highlights

Over the course of the year, the Board of Supervisors did not revise the SWCD's budget.

The actual charges to appropriations (expenditures) were \$2,259 below the final budget amounts.

Actual revenues were \$58,875 below the final budgeted amounts.

CAPITAL ASSETS

As of December 31, 2013, SWCD had net investment in capital assets of \$37,703 (See Note 4). This amount represents a net decrease (including additions and deductions) of \$4,962 from last year.

Capital Assets at Year-End

	<u>2013</u>	<u>2012</u>
Buildings and improvements	18,210	18,210
Equipment	113,254	112,214
Less: accumulated depreciation	<u>(93,761)</u>	<u>(87,759)</u>
Net capital assets	<u>37,703</u>	<u>42,665</u>

Long-Term Liabilities

The only long-term liabilities SWCD has relate to vacation and sick leave. See further discussion in the accompanying notes.

FACTORS BEARING ON THE FUTURE AND NEXT YEAR'S GRANT BUDGETS AND RATES

The SWCD's elected and appointed officials considered many factors when setting the fiscal-year 2014 budget and fees that will be charged for the SWCD's activities. The SWCD does anticipate a decrease in both their tree and fabric revenue due to a decrease in funding during 2014. SWCD anticipates the County's allocation to meet the initial budget request to them.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the SWCD's office at 629 N. 11<sup>th</sup> Street Montevideo, Minnesota, 320-269-2139.



CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
GENERAL FUND BALANCE SHEET AND GOVERNMENTAL  
ACTIVITIES - STATEMENT OF NET POSITION WITH ADJUSTMENTS  
TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2013

	General Fund	Adjustments See Note 10	Statement of Net Position
<b>ASSETS</b>			
Cash and investments	403,831		403,831
Accounts receivable	1,580		1,580
Due from other governments	10,382		10,382
Interest receivable	550		550
Capital assets			
Depreciable		131,464	131,464
Accumulated depreciation		(93,761)	(93,761)
<b>TOTAL ASSETS</b>	<b>416,343</b>	<b>37,703</b>	<b>454,046</b>
<b>LIABILITIES</b>			
Deferred revenue	23,340		23,340
Non-current liabilities			
Due within one year		2,121	2,121
Due after one year		7,188	7,188
<b>TOTAL LIABILITIES</b>	<b>23,340</b>	<b>9,309</b>	<b>32,649</b>
<b>FUND BALANCE/NET POSITION</b>			
Fund balance/net position			
Committed for future projects	135,000	(135,000)	
Unassigned	258,003	(258,003)	
Total fund balance	393,003	(393,003)	
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>416,343</b>		
<b>NET POSITION</b>			
Net investment in capital assets		37,703	37,703
Unrestricted		383,694	383,694
<b>TOTAL NET POSITION</b>		<b>421,397</b>	<b>421,397</b>

See accompanying notes to financial statements.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
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  
YEAR ENDED DECEMBER 31, 2013

	General Fund	Adjustments See Note 10	Statement of Activities
Revenues			
Intergovernmental	151,683		151,683
Charges for services	46,050		46,050
Investment earnings	1,692		1,692
Total revenues	<u>199,425</u>		<u>199,425</u>
Expenditures/expenses			
Conservation	<u>256,041</u>	<u>5,110</u>	<u>261,151</u>
Total expenditures/expenses	<u>256,041</u>	<u>5,110</u>	<u>261,151</u>
Net change in fund balance/net position	(56,616)	(5,110)	(61,726)
Fund balance/net position - beginning of year	<u>449,619</u>	<u>33,504</u>	<u>483,123</u>
Fund balance/net position - end of year	<u><u>393,003</u></u>	<u><u>28,394</u></u>	<u><u>421,397</u></u>

See accompanying notes to financial statements.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE BUDGETARY COMPARISON  
YEAR ENDED DECEMBER 31, 2013

	Original/Final Budget	Actual
<b>REVENUES</b>		
Intergovernmental		
County	72,000	78,776
State/federal grant	91,000	72,907
Total intergovernmental	163,000	151,683
Charges for services	90,300	46,050
Interest earnings	5,000	1,692
Total revenues	258,300	199,425
<b>EXPENDITURES</b>		
District operations		
Personnel services	183,800	194,451
Other services and charges	27,000	26,417
Supplies	1,000	39
Bad debt expense		49
Capital outlay	1,500	1,243
Total district operations	213,300	222,199
Project expenditures		
District	35,000	19,430
State	10,000	14,412
Total project expenditures	45,000	33,842
Total expenditures	258,300	256,041
<b>NET CHANGE IN FUND BALANCE</b>		(56,616)
<b>FUND BALANCES - beginning of year</b>	449,619	449,619
<b>FUND BALANCES - end of year</b>	449,619	393,003

See accompanying notes to financial statements.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chippewa Soil and Water Conservation District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies used by Chippewa Soil and Water Conservation District are discussed below:

A. REPORTING ENTITY

The district is organized under the provisions of Minnesota Statutes Chapter 103C and is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

The purpose of the District is to assist land occupiers in applying practices for the conservation of soil and water resources. These practices are intended to control wind and water erosion, pollution of lakes and streams, and damage to wetlands and wildlife habitats.

The Chippewa Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture Natural Resources Conservation Service, and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution, and improper land use.

Each fiscal year the District develops a work plan that is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

The District is not considered a part of Chippewa County because, even though the County provides a significant amount of the District's revenue in the form of an appropriation, it does not retain any control over the operations of the District.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

B. BASIC FINANCIAL STATEMENTS

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the financial activities of Chippewa Soil and Water Conservation District overall. The government-wide 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. Chippewa Soil and Water Conservation District's assets are reported in two parts: net investment in capital assets and unrestricted net position.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIC FINANCIAL STATEMENTS (Continued)

Chippewa Soil and Water Conservation District reports one governmental fund. The General Fund is Chippewa Soil and Water Conservation District' primary operating fund. It accounts for all financial resources of Chippewa Soil and Water Conservation District.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied is determined by its 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 when 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. Under this basis of accounting, transactions are recorded in the following manner:

1. Revenue Recognition - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.
2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Fund Financial Statements

Revenues

Governmental fund revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance the expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The District considers these revenues as available if they are collected within sixty days after year end.

Nonexchange Transactions

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and may also establish time requirements. Federal and state grants mandating the District perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when the eligibility and time requirements are met, usually when the corresponding expenditure is incurred, using the guidelines of the legal and contractual requirements of the individual programs.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations and donations. The provider may establish purpose restrictions and eligibility requirements. Revenues are recognized in the year to which they apply according to statute or contract. Gifts and contributions from individuals and miscellaneous revenues are also considered voluntary nonexchange transactions, and are generally recognized when received in cash because they are not measurable until received.

Exchange Transactions

Exchange transactions include revenues such as interest earned, fees, sales and services. Sales and services, and interest earned are reported as revenue when they become both measurable and available to finance expenditures of the fiscal period. The District considers these revenues as available if they are collected within sixty days after year end.

Expenditures

Expenditures are recorded under the modified accrual method when the fund liability is incurred, except for certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

D. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. CASH AND INVESTMENTS

Cash and investments include cash balances that are invested to the extent available in various securities as authorized by state law.

Chippewa Soil and Water Conservation District follows Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This statement establishes accounting and financial reporting standards for investments in: interest earning investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities, option contracts, stock warrants, and stock rights that have readily determinable fair values.

Under this statement, governmental entities other than external investment pools may report money market investments and participating interest earning investment contracts at amortized cost. All other investments must be reported at their fair market value. During 2013, the District's investments were comprised of Certificates of Deposit whose cost approximates market.

F. ACCOUNTS RECEIVABLE

Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts is considered necessary at year end.

G. CAPITAL ASSETS

Government-Wide Financial Statements

Capital assets are defined by the District as assets with an initial cost of more than \$1,000 for general capital assets, and an estimated useful life in excess of at least one year. Donated capital assets are recorded at estimated fair value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The cost of property replaced, retired or otherwise disposed of, along with its accumulated depreciation, is deducted from the asset accounts. Depreciation is recorded as an expense in the statements of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives with the straight line method of depreciation. The range of estimated useful lives and method of depreciation by type of asset is as follows:

<u>Asset</u>	<u>Method</u>	<u>Years</u>
Buildings	Straight-line	30
Equipment	Straight-line	4-15

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. COMPENSATED ABSENCES

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 12 hours per month. The limit on the accumulation of vacation leave is 192 hours. Upon termination/retirement from the District, employees in good standing are paid accrued vacation leave. The portion of accumulated vacation pay that will be paid from available spendable resources (within 60 days) is recorded as a current liability in the governmental fund types. The remaining unpaid vacation pay is recorded as long-term debt.

Sick leave accrual is 12 days per year and the limit on sick leave accrual is 400 hours. Sick leave costs are recognized as expenditures when leave time is used. Upon retirement at age sixty-two or over, employees are paid up to 240 hours of accrued sick leave. On termination of employment by illness or death, employees are paid up to 400 hours of accrued sick leave.

I. FUND EQUITY/NET POSITION

The District utilizes GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory and prepaid items) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation

Committed fund balance – amounts constrained by the District itself, using its highest level of decision-making authority (i.e., Board of Supervisors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.

Unassigned fund balance – amounts that are available for any purpose.

The invested in capital assets represents the accumulated value of the capital assets of the District, net of related debt. The unrestricted net position represents the accumulated earnings of the District.



CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. FUND EQUITY/NET POSITION (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Reported budget amounts represent the originally adopted budget as revised. Revisions to the originally adopted budget require approval of the Board of Supervisors. The 2013 budget was not revised during the year.

NOTE 3. CASH AND INVESTMENTS

The District follows the provisions of GASB Statement 40, *Deposit and Investment Risk Disclosures*. This standard revised the requirements regarding disclosure of custodial credit risk and established requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

In accordance with Minnesota Statutes, the District maintains deposits at financial institutions authorized by the Board of Supervisors. This statute further requires that all the District's deposits be protected by insurance, surety bond, collateral or an irrevocable letter of credit issued by Federal Home Loan Banks. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. If irrevocable letter of credits are used, they must equal the amount of any excess deposits plus interest at the close of the banking day.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the District treasurer or in a financial institution other than that furnishing the collateral. As of December 31, 2013, the District's bank balance was adequately collateralized.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	18,210			18,210
Equipment	112,214	1,040		113,254
Less: accumulated depreciation for				
Buildings	7,284	607		7,891
Equipment	<u>80,475</u>	<u>5,395</u>		<u>85,870</u>
 Total capital assets - net	 <u>42,665</u>	 <u>(4,962)</u>		 <u>37,703</u>

Depreciation expense of \$6,002 was charged to the general government activity.

NOTE 5. DEFERRED REVENUE

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and Chippewa County for various programs. Revenues will be recognized when the related program expenditures are recorded. As of December 31, 2013, deferred revenue was \$23,340.

NOTE 6. LONG TERM DEBT

The District's only long-term debt is compensated absences. Changes in long-term debt for the period ended December 31, 2013 is as follows:

Balance - December 31, 2012	9,161
Net changes in compensated absences	<u>148</u>
Balance - December 31, 2013	<u>9,309</u>

NOTE 7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health; and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities and workers' compensation are insured through MCIT. The District is covered for errors and omissions through MCIT.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 8. CONTINGENT LIABILITIES

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

NOTE 9. PENSION PLANS

A. Plan Description

All full-time and certain part-time employees of the Chippewa Soil and Water Conservation District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF 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.

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 five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

Two methods are used to compute benefits for PERA's 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 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining 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 GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 9. PENSION PLANS (Continued)

A. Plan Description (Continued)

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 receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

B. Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, Chippewa Soil and Water Conservation District was required to contribute the following percentages of annual covered payroll; 11.78% for Basic Plan members, and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012 and 2011 were \$9,750, \$8,874 and \$8,215, respectively. The District's contributions were equal to the contractually required contributions for each year as set by State Statute.

NOTE 10. ADJUSTMENTS TO FINANCIAL STATEMENTS

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

Total Fund Balance - Total Governmental Funds	393,003
Amounts reported for governmental activities in the Statement of Net Position are different, as shown under the "Adjustments" column because:	
Capital assets of \$131,464 net of accumulated depreciation of \$93,761 are not financial resources and, therefore, are not reported in the governmental fund	37,703
Compensated absences are not reported in the general fund	<u>(9,309)</u>
Net Position of Governmental Funds	<u><u>421,397</u></u>

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 10. ADJUSTMENTS TO FINANCIAL STATEMENTS (Continued)

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

Net Change in Fund Balance - Total Governmental Funds (56,616)

Amounts reported for governmental activities in the Statement of  
Activities are different under the "Adjustments" column because:

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.

Capital outlay	1,040
Depreciation expense	(6,002)

Compensated absences are also reflected in the Statement of Activities,  
however they do not require the use of current financial resources and  
therefore are not reported in the governmental funds until actually due.

(148)

Changes in Net Position of Governmental Activities

(61,726)

**OTHER REQUIRED REPORTS**

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Montevideo, Minnesota

Dana F. Cole & Company, LLP

April 8, 2014

CHIPPEWA SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2013

**2013-1: Significant Deficiency in the Accounting Policies and Procedures Manual**

*Condition and Criteria:* The District should have a formal accounting policies and procedures manual, including antifraud programs and controls manual, which has been approved by the Board of Supervisors.

*Cause:* The District does not have a formal accounting policies and procedures manual, including antifraud programs and controls manual, which is necessary to ensure adequate internal accounting control.

*Effect:* The design of the internal controls over financial reporting could affect the ability of the District to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In addition, the lack of a formal accounting policies and procedures manual may result in the District's inability to prevent/detect misappropriation of District assets.

*Recommendation:* We recommend District work towards developing and approving a formal accounting policies and procedures manual, including antifraud programs and controls manual, which will improve the District's internal controls.

*Response:* The District has begun working on adopting a formal accounting policies and procedures manual, including antifraud programs and controls manual.

**2013-2: Material Weakness in Segregation of Duties**

*Condition and Criteria:* District should have appropriate segregation of duties within the accounting functions to ensure that their assets are safeguarded against loss.

*Cause:* Due to the size of the Organization there is little segregation of duties over bookkeeping, billing and accounting functions.

*Effect:* The design of the internal controls over financial reporting could affect the ability of the District to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the District's inability to prevent/detect misappropriation of District assets.

*Recommendation:* We recommend District management be aware of the lack of segregation of duties within the accounting functions and assess whether additional segregation of duties is cost beneficial. If additional segregation is not possible, we recommend District management implement oversight procedures to ensure existing internal control policies and procedures are being implemented by the District.

*Response:* The District will work towards implementing procedures to improve segregation of duties within the bookkeeping, billing and accounting functions, within the constraints of existing time and cost considerations and will continue to review the situation and make improvements.

**2013-3: Material Weakness in Financial Reporting Process**

*Condition and Criteria:* District management should possess the ability to prepare financial statements prepared in accordance with generally accepted accounting principles. This would include the ability to properly record and classify transaction in a general ledger, measure and record accrual basis adjustments to the accounts, and prepare the financial statements and related disclosures without the assistance from the auditors.

*Cause:* As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

*Effect:* The design of the controls over financial reporting process would affect the ability of the District to report their financial data consistently with the assertions of management in the financial statements.

*Recommendation:* We recommend that District management be aware of the responsibilities regarding financial reporting. If management chooses to undertake these financial reporting responsibilities, a number of policies, procedures, and reviews will need to be developed and implemented.

*Response:* The District will work towards implementing procedures to improve financial reporting.



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Supervisors  
Chippewa Soil and Water Conservation District

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of Chippewa Soil and Water Conservation District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions of public indebtedness because Chippewa Soil and Water Conservation District has no public debt.

In connection with our audit, nothing came to our attention that caused us to believe that Chippewa Soil and Water Conservation District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Chippewa Soil and Water Conservation District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Dana F. Cole & Company, LLP

Montevideo, Minnesota  
April 8, 2014