

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA
FINANCIAL REPORT
DECEMBER 31, 2018**

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Clay Soil and Water Conservation District
Moorhead, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Clay Soil and Water Conservation District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the 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.

Auditor's 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 auditor's 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 general fund of the Clay Soil and Water Conservation District, as of December 31, 2018, and the respective changes in financial position, thereof 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 and schedules of contributions and net pension liability on pages 3–7 and 24-27 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 the Clay Soil and Water Conservation District's basic financial statements. The Breakdown of County Revenue and Unearned Revenue Breakdown are presented for purposes of additional analysis and are not a required part of the financial statements.

The Breakdown of County Revenue and Deferred Revenue are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Breakdown of County Revenue and Deferred Revenue is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2019, on our consideration of the Clay 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 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 Clay Soil and Water Conservation District's internal control over financial reporting and compliance.



Johnson & Roggenbuck, P.A.
Ortonville, Minnesota
August 27, 2019

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

The Clay Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2018. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. For governmental activities, financial statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. Since District's are single-purpose, special-purpose government units, the District combines the government-wide and fund financial statements into a single presentation.

The Statement of Net Position and the Statement of Activities

The analysis of the District as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position — the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's property tax base, to assess the overall health of the District.

In the Statement of Net Position and the Statement of Activities, the District presents Governmental activities. All of the District's basic services are reported here. Appropriations from the county and state finance most activities.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

Reporting the District's General Fund

The analysis of the District's general fund begins on page 5. The fund financial statements begin on page 8 and provide detailed information about the general fund—not the District as a whole. The District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is 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. The general fund statements provide a detailed short-term view of the District's 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 the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

The District's net position decreased by \$35,536. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

**Table 1
Net Position**

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Assets		
Current Assets	\$ 595,136	\$ 655,399
Capital Assets, Net of Accumulated Depreciation	71,593	47,472
Total Assets	<u>666,729</u>	<u>702,871</u>
Deferred Outflows of Resources	69,264	137,431
Total Assets and Deferred Outflows of Resources	<u>\$ 735,993</u>	<u>\$ 840,302</u>
Liabilities		
Current Liabilities	\$ 250,444	\$ 259,444
Long-Term Liabilities	315,130	337,364
Total Liabilities	<u>565,574</u>	<u>596,808</u>
Deferred Inflows of Resources	67,064	104,603
Total Liabilities and Deferred Inflows of Resources	<u>632,638</u>	<u>701,411</u>
Net Position		
Investment in Capital Assets	71,593	47,472
Unrestricted	31,762	91,419
Total Net Position	<u>103,355</u>	<u>138,891</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 735,993</u>	<u>\$ 840,302</u>

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

Net position of the District governmental activities decreased by 25.59 percent (\$103,355 compared to \$138,891). Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, changed from a \$91,419 surplus at December 31, 2017 date to a \$31,762 surplus at the end of this year.

**TABLE 2
Changes in Net Position**

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues		
Program Revenues:		
Intergovernmental	\$ 517,101	\$ 498,519
Charges for Services	74,167	86,252
General Revenues:		
Investment Earnings	268	123
Miscellaneous	34,603	32,494
Total Revenues	<u>626,139</u>	<u>617,388</u>
 Program Expenses		
Conservation	<u>661,675</u>	<u>648,287</u>
Total Expenses	<u>661,675</u>	<u>648,287</u>
 Increase (Decrease) in Net Position	 \$ <u>(35,536)</u>	 \$ <u>(30,899)</u>

The District's total revenues increased by 1.42 percent (\$8,751). The total cost of all programs and services increased slightly by \$13,388. The District's increase in revenue was not enough to cover the increase in expenses.

THE DISTRICT'S FUND

As the District completed the year, its general fund (as presented in the balance sheet on page 8) reported a fund balance of \$344,692, which is below last year's total of \$395,955.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

General Fund Budgetary Highlights

There was no change in the Clay Soil & Water Conservation District's original and final budget for the year 2018. There were also significant increases and decreases in certain revenues and expenditures. The following summarizes each line item with significant variances.

2018 Revenues

Fees from County

In 2018, this budget line item showed a positive variance of \$4,608 which is due to an increase in the county's annual allocation.

Local

In 2018, the Clay Soil & Water Conservation District budgeted \$4,334 for the Farmbill Contribution Agreement from local Pheasant Forever Chapters. However, \$14,628 was received as the match portion of the farmbill grant from BWSR and Pheasants Forever therefore showing a positive variance of \$10,294 in the final budget.

State Grants

In 2018, State Grants showed a negative variance of \$26,137 due to less grants spent and implemented in 2018. The District is deferring more state grants including the district capacity grant and buffer cost-share.

Charges for Services

The charges for services category along with the other miscellaneous revenue category reflect the total self-generated income for the district. When combined, the two categories show a positive variance of \$9,820 from the final budget. This positive variance is a result of reimbursements received by the Districts for providing administration for grants.

2018 Expenditures

District Operations

In 2018, the District had a negative variance of \$185 in total District Operations. This negative variance is due to higher personnel services and capital outlays.

Project Expenditures – District

In 2018, the district showed a slight positive variance of \$12 in district expenditures. This positive variance is coincides with a positive variance of \$1,367 in the District's charges for services.

Project Expenditures – State/County

In 2018, the District had a positive variance in the state project expenditures category of \$12,896. This positive variance is due to smaller grants and programs resulting in less spending.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

CAPITAL ASSETS & LONG-TERM LIABILITIES

Capital Assets

At the end of 2018, the District had \$71,593 invested in capital assets, including drills, a tractor, vehicles, and a side-by-side. This amount represents a net increase (including additions and deductions) of \$24,121 or 50.81 percent, over last year.

This year the District's additions included a pickup and copier.

Long-Term Liabilities

At the end of 2018, the District had \$59,941 in accrued compensated absences and \$255,189 in Net Pension Liability. This compares to \$56,471 in 2017 for accrued compensated absences and \$280,893 for Net Pension Liability.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year budget and fees for services. Without a stable funding mechanism in place it is difficult for the District to develop, with great accuracy, an annual budget. There are many uncontrollable factors that come into play each year which may have an impact on the District's budget. The District considers the costs associated with tree planting and matting installation along with the costs of trees and matting. Another cost to consider is the fuel and unknown expenses involved. Employee salaries/benefits and general operating expenses are considered. The District is not aware of any special grants that will be available until they are announced, if any should be available.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Clay Soil and Water Conservation District at 1615 30th Avenue South, Moorhead, MN 56560 or (218) 287-2255.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2018**

	General Fund	Adjustments See Notes	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 595,136	\$ -	\$ 595,136
Capital Assets:			
Equipment, net accumulated depreciation	-	71,593	71,593
Total Assets	595,136	71,593	666,729
Deferred Outflows of Resources			
Defined benefit pension plan	-	69,264	69,264
Combined Assets and Deferred Outflows of Resources	\$ 595,136	\$ 140,857	\$ 735,993
Liabilities			
Current liabilities:			
Unearned revenue	\$ 250,444	\$ -	\$ 250,444
Long-term liabilities:			
Compensated absences	-	59,941	59,941
Net pension liability	-	255,189	255,189
Total Liabilities	250,444	315,130	565,574
Deferred Inflows of Resources			
Defined benefit pension plan	-	67,064	67,064
Combined Liabilities and Deferred Inflows of Resources	250,444	382,194	632,638
Fund Balance/Net Position			
Fund Balance			
Assigned to compensated absences	59,941	(59,941)	-
Unassigned	284,751	(284,751)	-
Total Fund Balance	344,692	(344,692)	-
Total Liabilities and Fund Balance	\$ 595,136		
Net Position			
Investment in capital assets		71,593	71,593
Unrestricted		31,762	31,762
Total Net Position		103,355	103,355
Total Liabilities and Net Position		\$ 140,857	\$ 735,993

Notes are an integral part of the basic financial statements.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$ 517,101	\$ -	\$ 517,101
Charges for services	74,167	-	74,167
Investment earnings	268	-	268
Miscellaneous	9,603	25,000	34,603
Total Revenues	601,139	25,000	626,139
Expenditures/Expenses			
Conservation			
Current	627,337	34,338	661,675
Capital outlay	25,065	(25,065)	-
Total Expenditures/Expenses	652,402	9,273	661,675
Excess of Revenues Over (Under)			
Expenditures/Expenses	(51,263)	15,727	(35,536)
Fund Balance/Net Position January 1	395,955	(257,064)	138,891
Fund Balance/Net Position December 31	\$ 344,692	\$ (241,337)	\$ 103,355

Notes are an integral part of the basic financial statements.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Intergovernmental			
County	\$ 262,643	\$ 267,251	\$ 4,608
Local	4,334	14,628	10,294
State grant	259,428	235,222	(24,206)
Total intergovernmental	526,405	517,101	(9,304)
Charges for services	72,800	74,167	1,367
Miscellaneous			
Interest earnings	100	268	168
Other	1,150	9,603	8,453
Total miscellaneous	1,250	9,871	8,621
Total Revenues	600,455	601,139	684
Expenditures			
District operations			
Personnel services	414,143	418,697	(4,554)
Other services and charges	9,500	4,453	5,047
Capital Outlay	8,000	10,609	(2,609)
Total district operations	431,643	433,759	(2,116)
Project expenditures			
District	26,400	26,388	12
State/County	205,151	177,799	27,352
Capital Outlay	-	14,456	(14,456)
Total project expenditures	231,551	218,643	12,908
Total Expenditures	663,194	652,402	10,792
Excess of Revenues Over (Under)			
Expenditures	(62,739)	(51,263)	11,476
Fund Balance - January 1	395,955	395,955	-
Fund Balance - December 31	\$ 333,216	\$ 344,692	\$ 11,476

Notes are an integral part of the basic financial statements.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Clay Soil and Water Conservation District (District) conform to generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

Financial 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 Clay 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 Clay 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.

Government-Wide Financial Statements

The government-wide financial statements (i.e. The Statement of Net Position and the Statement of Activities) report information on all the nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

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 cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018

Fund Financial Statements

The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures are recorded when a liability is incurred under accrual accounting.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues is recognized when the corresponding expenditure is incurred. The District also receives an annual appropriation from the County, which is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

Investment earnings are recognized when earned. Other revenues are recognized when they are received in cash because they usually are not measurable until then.

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Budget Information

The District adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Capital assets reported on a net (depreciated) basis. General capital assets are valued at historical or estimated historical cost.

Liabilities

Long-term liabilities, such as compensated absences, are accounted for in the governmental activities column on the financial statements.

Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment in capital assets indicates the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position indicates the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position indicates the amount of net position that does not meet the definition of restricted or investment in capital assets.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts related to their pension obligations. The length of the expense recognition period for deferred amounts is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (reduction of pension expense) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their pension obligations. These deferred amounts represent differences between projected and actual earnings on pension plan investments, differences between expected and actual economic experience, changes in actuarial assumptions, and changes in proportion and are recognized over a five-year period.

Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable fund balance indicates amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted fund balance indicates the portion of fund balance reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation.

Committed fund balance indicates the portion of fund balance that can be used only for the specific purposes imposed by formal action (resolution) of the District. Those committed amounts cannot be used for any other purposes unless the District removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned fund balance indicates amounts the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District or the District Administrator who has been delegated that authority by District resolution.

Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Explanation of Adjustments Column in Statements

Capital Assets: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made if the District has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date, and reconciles to the amount reported in the Capital Assets note.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018

Long-Term Liabilities: In the Statement of Net Position and Government Fund Balance Sheet, an adjustment is made to reflect the totals of Compensated Absences and Net Pension Liability the district has as of the report date. See Long-Term Liabilities in Note 2.

Depreciation and Change in Compensated Absences and Net Pension Expense for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year and the change in Pension Expense. This number is supported by figures in Capital Assets and Long-Term Liabilities in Note 2 and Pension Expense, Net in Note 8.

Vacation and Sick Leave

Under the Districts personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 16 hours per month. Sick leave accrual is 96 hours per year. The limit on the accumulation of vacation leave is 240 hours and the limit on sick leave is 960 hours. Upon termination from the District, employees are paid accrued vacation and up to 200 hours of accrued sick leave.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Risk Management

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The District pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 – DETAILED NOTES

Capital Assets

The changes in capital assets and depreciation are listed below.

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018
Equipment	\$ 207,435	\$ 50,065	\$ 20,604	\$ 236,896
Less: Accumulated Depreciation	<u>159,963</u>	<u>25,944</u>	<u>20,604</u>	<u>165,303</u>
Net Capital Assets	\$ <u>47,472</u>	\$ <u>24,121</u>	\$ <u>0</u>	\$ <u>71,593</u>

The costs of equipment are depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method. The useful lives for the purpose of computing depreciation is 5 to 10 years for equipment. Current depreciation is \$25,944.

The District uses a threshold of \$5,000 for capitalizing assets purchased.

Unearned Revenue

Unearned Revenue represents advances from the Minnesota Board of Water and Soil Resources for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded.

Total Unearned Revenue as itemized on “Unearned Revenue Breakdown” is \$250,444.

Long-Term Liabilities – Compensated Absences Payable

Changes in compensated absences for the period ended December 31, 2018 are:

Balance January 1, 2018	\$ 56,471
Additions	39,827
Deletions	<u>(36,357)</u>
Balance December 31, 2018	\$ <u>59,941</u>

Long-Term Liabilities – Net Pension Liability

Changes in net pension liability for the period ended December 31, 2018 are:

Balance January 1, 2018	\$ 280,893
Additions	36,210
Deletions	<u>(61,914)</u>
Balance December 31, 2018	\$ <u>255,189</u>

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District had deposits of \$122,078 that exceeded federal deposit insurance but were fully collateralized by securities held by the depository's agent at December 31, 2018. As of December 31, 2018, the District's deposits were not exposed to custodial credit risk.

NOTE 3 – DEFINED BENEFIT PENSION PLAN

Plan Description – Public Employees Retirement Association

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the District are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. 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.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0% increase. If the General Employees Plan is at least 90% funded for two consecutive years, the benefit increase will revert to 2.5%. If, after reverting to a 2.5% benefit increase, the funding ratio declines to less than 80% for one year or less than 85% for two consecutive years, the benefit increase will decrease to 1.0%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2018 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended December 31, 2018 were \$23,641. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2018, the District reported a liability of \$255,189 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$8,281. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the District's proportion share was .0046% which was an increase of .0002% from its proportion measured as of June 30, 2017.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

District's proportionate share of net pension liability	\$ 255,189
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>8,281</u>
Total	<u><u>\$ 263,470</u></u>

For the year ended December 31, 2018, the District recognized pension expense of \$6,855 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$1,931 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 6,474	\$ 6,311
Changes in Actuarial Assumptions	20,668	27,820
Difference between projected and actual investment earnings	0	29,047
Changes in proportion	29,875	3,886
Contributions paid to PERA subsequent to the measurement date	<u>12,247</u>	<u>0</u>
Total	<u><u>\$ 69,264</u></u>	<u><u>\$ 67,064</u></u>

\$12,247 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2019	\$ 13,936
2020	(1,685)
2021	(16,972)
2022	<u>(5,326)</u>
Total	<u><u>\$ (\$10,047)</u></u>

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the net pension liability of the General Employees Fund:	\$414,715	\$255,189	\$123,505

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 – DEFINED CONTRIBUTION PLAN

Four supervisors of the District are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2018 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$383	\$383	5%	5%	5%

NOTE 5 - OPERATING LEASES

The District entered into a 10-year lease beginning in 2018. The lease calls for monthly payments of \$2,986. Payments in 2018 included a reduction in the first monthly payment to \$1,806 due to an overpayment in the previous year. Total costs for 2018 were \$34,655.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6 - RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, January 1	\$	395,955
Plus: Excess of Revenue Over Expenditures		<u>(51,263)</u>
Governmental Fund Balance, December 31		344,692
Adjustments from Fund Balance to Net Position:		
Plus: Capital Assets		71,593
Plus: Deferred Outflows of Resources		69,264
Less: Long-Term Liabilities		(315,130)
Less: Deferred Inflows of Resources		<u>(67,064)</u>
Net Position	\$	<u><u>103,355</u></u>

NOTE 7 - RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION

Change in Fund Balance	\$	(51,263)
Capital Outlay		25,065
Pension Expense, net		(4,924)
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level.		(25,944)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.		(3,470)
Gain recognized from the trade of equipment		<u>25,000</u>
Change in Net Position	\$	<u><u>(35,536)</u></u>

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2018**

Fiscal Year Ending	Statorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 23,641	\$ 23,641	\$ -	\$ 315,209	7.50%
2017	\$ 22,466	\$ 22,466	\$ -	\$ 299,541	7.50%
2016	\$ 19,556	\$ 19,556	\$ -	\$ 260,742	7.50%
2015	\$ 18,184	\$ 18,184	\$ -	\$ 242,456	7.50%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined December 31 of the previous year.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2018**

Fiscal Year Ending	Employer's Proportionate Share (percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with Employer (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With Employer (a+b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0046%	\$ 255,189	\$ 8,281	\$ 263,470	\$ 315,209	83.59%	79.50%
2017	0.0044%	\$ 280,893	\$ 3,513	\$ 284,406	\$ 299,541	94.95%	75.90%
2016	0.0039%	\$ 316,661	\$ 4,187	\$ 320,848	\$ 260,742	123.05%	68.90%
2015	0.0042%	\$ 217,666	-	\$ 217,666	\$ 242,456	89.78%	78.19%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined December 31 of the previous year.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- The State's special funding contribution increased from \$6 million to \$16 million.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

2015 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA

BREAKDOWN OF COUNTY REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$	162,271
WATER PLAN MONEY		25,672
WETLAND MONEY		16,447
FEEDLOT MONEY		25,000
AG INSPECTOR		25,000
LOCAL CAPACITY GRANT MATCH		<u>12,861</u>
TOTAL	\$	<u><u>267,251</u></u>

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**UNEARNED REVENUE BREAKDOWN
DECEMBER 31, 2018**

Balance of BWSR Service Grants:		\$	19,263
Balance of <u>unencumbered</u> BWSR Cost-Share Grants:	Current fiscal year		2,092
	Previous fiscal year		-

Balance of encumbered BWSR Cost-Share Grant:

FY	Contract No.	Contract Amount	T&A Encumbered
2018	1805	\$ 1,689	\$ 1,689
		15,251	15,251
Total of all Cost-Share Encumbrances			16,940

Balance of <u>other</u> funds being deferred:	
Buffer	\$ 35,000
Buffer Cost Share	59,050
District Capacity	113,267
Farmbill Contribution	4,832
Subtotal of other funds:	212,149

TOTAL OF ALL UNEARNED REVENUE: \$ 250,444

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

To the Board of Supervisors
Clay Soil and Water Conservation District

We have audited, in accordance with the 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 the governmental activities and the general fund of the Clay Soil and Water Conservation District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Clay Soil and Water Conservation District's basic financial statements and have issued our report thereon dated August 27, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clay Soil and Water Conservation District's internal control over financial reporting (internal control) to determine the audit 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 Clay Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clay Soil and Water Conservation District's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and responses, item 2018-01, which we consider to be a significant deficiency.

Compliance and Other Matters

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

Clay Soil and Water Conservation District's Response to Findings

Clay Soil and Water Conservation District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Clay Soil and Water Conservation District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in cursive script that reads "Johnson & Roggenbuck PA".

Johnson & Roggenbuck, P.A.
Ortonville, Minnesota
August 27, 2019

**CLAY SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2018**

SIGNIFICANT DEFICIENCY

2018-01 LACK OF SEGREGATION OF DUTIES

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition: There is a lack of sufficient segregation of duties within the entity as the administrative assistant has access to the general ledger, access to physical assets, signature authority on bank accounts, and authority to record transactions.

Cause: Size and budget constraints limit the number of personnel within the accounting department.

Effect: The design of the internal control over financial reporting could adversely affect the entity's ability to initiate, authorize, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This could include the lack of the ability to prevent or detect fraud or misappropriation of assets in a timely manner.

Recommendation: The accounting responsibilities should be reviewed periodically and consideration given to improving the segregation of duties. We acknowledge the fact that the entity's opportunity for improving segregation of duties is somewhat limited by cost-benefit consideration.

Response: The Organization will continue to monitor its operations and procedures to determine if segregation is feasible.

MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

To the Board of Supervisors
Clay 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 the governmental activities and the general fund of Clay Soil and Water Conservation District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Clay Soil and Water Conservation District's basic financial statements, and have issued our report thereon dated August 27, 2019.

The *Minnesota Legal Compliance Audit Guide for Other 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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the District does not receive tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Clay Soil and Water Conservation District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other 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 the Clay 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.



Johnson & Roggenbuck, P.A.
Ortonville, Minnesota
August 27, 2019