

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
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DECEMBER 31, 2013**

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INTRODUCTORY SECTION

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
ORGANIZATION
DECEMBER 31, 2013**

ELECTED	NAME	TERM EXPIRES
Chair	Margaret (Peggy) Pearson	12/31/2014
Vice Chair	Gary Rantala	12/31/2016
Secretary/Treasurer	Mark Peterson	12/31/2016
Board Member	Charles Bainter	12/31/2016
Board Member	Vacant	12/31/2014

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
North St. Louis Soil and Water Conservation District
Virginia, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund of the North St. Louis Soil and Water Conservation District (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 District'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 District'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 general fund of the North St. Louis Soil and Water Conservation District as of December 31, 2013, 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 budgetary comparison information on pages 4 - 10 and 23-24 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2014, on our consideration of the North St. Louis 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 result 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 North St. Louis Soil and Water Conservation District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
February 21, 2014

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REQUIRED SUPPLEMENTARY INFORMATION

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

This section of North St. Louis Soil and Water Conservation District's (District) annual financial report presents our discussion and analysis of the District's financial performance during the years that ended on December 31, 2013. The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year (2013) and the prior year (2012) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 include the following:

- The District's Government-wide net position decreased to \$17,281 (a decrease of \$25,451 over the prior year) due primarily to increased conservation expenses.
- Overall fund-level revenues totaled \$146,662 in 2012 and \$196,602 in 2013. The expenditures exceeded revenues in 2012 and 2013 primarily because of an increase in approved projects and expenditures.

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 management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The District is presenting a combined General Fund Balance Sheet and Statement of Net Position and a combined Statement of Revenues, Expenditures, and Change in Fund Balance and Statement of Activities. These two statements tell how the District did both at a fund level and at a government-wide level.

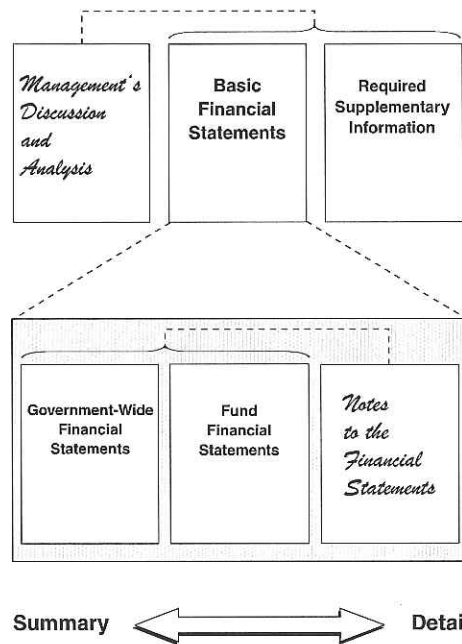
**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-Wide and Fund Financial Statements.		
Type of Statements	Government-Wide.	Governmental Funds.
Scope	Entire District.	The activities of the District that are not proprietary or fiduciary.
Required Financial Statements	Statement of net position.	Balance sheet.
	Statement of activities	Statement of revenues, expenditures and changes in fund balance.
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.
Type of Asset/Deferred Outflow/Liability/Deferred Inflow Information	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, short-term and long-term.	Only assets and deferred outflows expected to be used up and liabilities and deferred inflows that come due during the year or soon thereafter, no capital assets included.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.

District-Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. 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.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

The two District-wide portions report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's revenue sources and the financial condition of the state.

Fund Financial Statements

The fund portion of the two statements provides more detailed information about the District's fund. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's total net position was \$42,732 on December 31, 2012 and \$17,281 on December 31, 2013. This results in a decrease of \$25,451 from 2012 to 2013. The main reason for this decrease is due to the District's continued increase in conservation expenses. (see Table A-1).

Table A-1
The District's Net Position

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 63,244	\$ 74,932
Capital Assets	9,970	17,182
Total Assets	<u>73,214</u>	<u>92,114</u>
Current Liabilities	45,759	48,013
Long-Term Liabilities	1,624	1,369
Deferred Inflows	8,550	-
Total Liabilities and Deferred Inflows	<u>55,933</u>	<u>49,382</u>
Net Position		
Investment in Capital Assets	9,970	17,182
Restricted	25,336	-
Unrestricted	(18,025)	25,550
Total Net Position	<u>\$ 17,281</u>	<u>\$ 42,732</u>

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Changes in Net Position

The District-wide total revenues were \$146,662 for the year ended December 31, 2012 and \$196,602 for the year ended December 31, 2013. Intergovernmental revenues account for the majority of the District's total revenues.

Table A-2
Statement of Activities

	<u>Governmental Activities</u>		
	<u>2013</u>	<u>2012</u>	
Revenues			
Intergovernmental	\$ 115,691	\$ 127,825	(9.5) %
Charges for Services	78,939	14,266	453.3
Investment Earnings	6	19	(68.4)
Miscellaneous	1,966	4,552	(56.8)
Total Revenues	<u>196,602</u>	<u>146,662</u>	34.1
Expenses			
Conservation	214,841	170,232	26.2
Depreciation	7,212	6,372	13.2
Total Expenses	<u>222,053</u>	<u>176,604</u>	25.7
Change in Net Position	(25,451)	(33,300)	23.6
Net Position - Beginning of Year	<u>42,732</u>	<u>76,032</u>	(43.8)
Net Position - End of Year	<u><u>17,281</u></u>	<u><u>42,732</u></u>	(59.6)

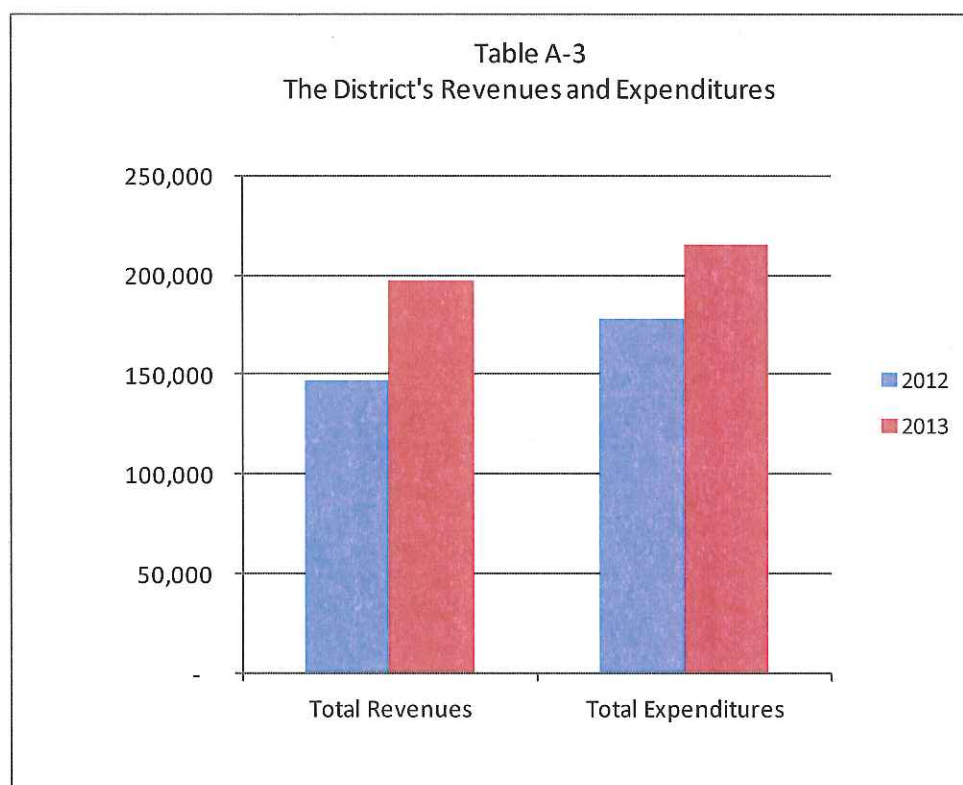
Total expenses surpassed total revenues for 2012 and 2013 decreasing net position by \$33,300 in 2012 and \$25,451 in 2013 due to lower intergovernmental revenues than anticipated.

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**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AT THE FUND LEVEL

The general fund includes the primary operations of the District in providing services to citizens. The financial performance of the District as a whole is reflected in its governmental fund as well. As the District completed 2012, its governmental fund reported total fund balance of \$26,919, a decrease of \$36,523 from the prior year primarily as a result of an increase in conservation project costs in 2012. As the District completed 2013, its governmental fund reported total fund balance of \$8,935, a decrease of \$17,984 from 2012. This decrease was primarily due to continued increases in conservation expenditures. Revenues for the District's general fund were \$146,662 in 2012, while total expenditures were \$178,283. The District's general fund had revenues of \$196,602 in 2013, while total expenditures were \$214,586. (see Table A-2).



CAPITAL ASSETS

By the end of 2013, the District had invested over \$32,000 in equipment. (More detailed information about capital assets can be found in Note 2A3 to the financial statements). Total depreciation expense for the year was \$7,212.

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**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District is dependent on the State of Minnesota for a significant portion of its revenue to fund the projects.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North St. Louis Soil and Water Conservation District, 230 1st Street South, Suite 104B, Virginia, MN 55792 or by calling (218) 749-2000.

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BASIC FINANCIAL STATEMENTS

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES –
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	General Fund	Adjustments Note 3.A	Governmental Activities
ASSETS			
Cash and Investments	\$ 43,827	\$ -	\$ 43,827
Accounts Receivable	19,417	-	19,417
Capital Assets:			
Equipment	-	32,700	32,700
Accumulated Depreciation-Equipment	-	(22,730)	(22,730)
Total Capital Assets	-	9,970	9,970
Total Assets	<u>\$ 63,244</u>	<u>\$ 9,970</u>	<u>\$ 73,214</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 17,712	\$ -	\$ 17,712
Salaries Payable	2,288	-	2,288
Due To Other Governments	301	-	301
Sales Tax Payable	1,496	-	1,496
Unearned Revenue	23,962	-	23,962
Long-Term Liabilities:			
Compensated Absences-Long Term	-	1,624	1,624
Total Liabilities	<u>45,759</u>	<u>1,624</u>	<u>47,383</u>
DEFERRED INFLOWS OF RESOURCES			
Advanced Grant Funds	8,550	-	8,550
FUND BALANCE/NET POSITION			
Fund Balance/Net Position			
Restricted for Conservation	25,305	(25,305)	-
Restricted for Flex Benefits	31	(31)	-
Unassigned Fund Balance	(16,401)	16,401	-
Total Fund Balance	<u>8,935</u>	<u>(8,935)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 63,244</u>		
NET POSITION			
Investment in Capital Assets		\$ 9,970	\$ 9,970
Restricted for Conservation		25,305	25,305
Restricted for Flex Benefits		31	31
Unrestricted		(18,025)	(18,025)
Total Net Position		<u>\$ 17,281</u>	<u>\$ 17,281</u>

See accompanying Notes to the Financial Statements.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

	General Fund	Adjustments Note 3.B	Governmental Activities
REVENUES			
Intergovernmental	\$ 115,691	\$ -	\$ 115,691
Charges for Services	78,939	-	78,939
Investment Earnings	6	-	6
Miscellaneous	1,966	-	1,966
Total Revenues	<u>196,602</u>	<u>-</u>	<u>196,602</u>
EXPENDITURES/EXPENSES			
Conservation			
Current	214,586	255	214,841
Depreciation	-	7,212	7,212
Total Expenditures	<u>214,586</u>	<u>7,467</u>	<u>222,053</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(17,984)	(7,467)	(25,451)
Fund Balance/Net Position - Beginning of Year	<u>26,919</u>	<u>15,813</u>	<u>42,732</u>
FUND BALANCE/ NET POSITION - END OF YEAR	<u><u>\$ 8,935</u></u>	<u><u>\$ 8,346</u></u>	<u><u>\$ 17,281</u></u>

See accompanying Notes to the Financial Statements.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North St. Louis Soil and Water Conservation District's (District) 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 established in GAAP and used by the District is discussed below.

A. Financial Reporting Entity

The North St. Louis Soil and Water Conservation District is organized under the provisions of Minnesota Statutes Chapter 103C. The District 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 wetland and wildlife habitats.

The North St. Louis 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 erosion, sedimentation, pollution and improper land use.

Each fiscal year, the District develops a work plan which 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 St. Louis County because, even though the County provides a significant amount of the District's revenues in the form of an appropriation, it does not retain any control over 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.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

B. Basic Financial Statements

Basic financial statements include information on the District's activities as a whole and information on the individual fund of the District. These separate presentations are reported in different columns. Each of the statements starts with a column of information based on activities of the general fund and reconciles it to a column that reports the "governmental activities" of the District as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported as investment in capital assets, restricted and unrestricted. The statement of activities demonstrates the degree to which the expenses of the District are offset by revenues.

The General Fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 of the non-fiduciary activities of the District.

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

On the government-wide financial statements, 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements

On the Governmental fund financial statements, revenues are recognized as soon as they are both measurable and available. The North St. Louis Soil and Water Conservation District considers all revenues to be available if they are collected within 60 days after the end of the current period. Reimbursement grants are considered available if they are collected within six months of the end of the current fiscal period. Charges for services and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the North St. Louis Soil and Water Conservation District's policy to use restricted resources first, then unrestricted resources as they are needed.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are 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 and revenue from sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received in cash because they usually are not measurable until then.

Project expenditures represent costs that are funded from federal, state, or district revenues. State project expenditures consist of grants to participants of the Cost-Share Program and other state programs. District project expenditures are costs of materials and supplies in District projects.

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.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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 required board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

Cash consists of a checking account and a savings account.

2. Receivables

The financial statements for the District contain no allowance for uncollectible accounts. Uncollectible amounts due for receivables are recognized as bad debts at the time information becomes available that indicates the particular receivable is uncollectible. These amounts are not considered to be material in relation to the financial position or operations of the fund.

3. Capital Assets

Capital assets consist of equipment and are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except for land, which uses a threshold of \$1. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5 - 10

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

4. Deferred Inflows of Resources

The financial statements for the District contain deferred inflows of resources. A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

5. Fund Balance

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts that are inherently nonspendable or assets that are legally or contractually required to be maintained intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board. Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

6. Net Position

In the government-wide statement of net position, net position is reported in three parts: (1) investment in capital asset; (2) restricted net position; and (3) unrestricted net position.

7. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

The District has defined cash and investments to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Custodial Credit Risk - Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows *Minnesota Statutes* for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110 percent of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

As of December 31, 2013, all of the District's deposits were covered by federal depository insurance or by collateral in accordance with *Minnesota Statutes*.

2. Receivables

The District did not have any receivables scheduled to be collected beyond one year as of December 31, 2013.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets being Depreciated Equipment	\$ 32,700	\$ -	\$ -	\$ 32,700
Less: Accumulated Depreciation for Equipment	<u>15,518</u>	<u>7,212</u>	<u>-</u>	<u>22,730</u>
Governmental Activities Capital Assets, Net	<u>\$ 17,182</u>	<u>\$ (7,212)</u>	<u>\$ -</u>	<u>\$ 9,970</u>

B. Liabilities

Changes in Long-Term Liabilities

District employees are granted annual vacation leave in varying amounts. Vacation leave accrual varies from 8 to 16 hours per month. Sick leave accrual is 13 days per year. At year-end, vacation leave is capped at 40 hours.

Vacation leave payments are reported as expenditures for governmental fund types when the payments are made to employees. The estimated commitment for vacation leave (compensated absences) for governmental activities is reported in the statement of net position.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	<u>\$ 1,369</u>	<u>\$ 4,995</u>	<u>\$ 4,740</u>	<u>\$ 1,624</u>	<u>\$ -</u>

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 RECONCILIATION FOR GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- A. Explanation of certain differences between the governmental fund balance sheet and the governmental activities statement of net position for 2013.

	<u>Adjustment</u>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	\$ 9,970
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, not reported in the governmental funds.	<u>(1,624)</u>
Net Adjustment to Fund Balance to Arrive at Net Position	<u>\$ 8,346</u>

- B. Explanation of certain differences between the statement of revenues, expenditures, and change in fund balance and the statement of activities 2013.

	<u>Adjustment</u>
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.	\$ 7,212
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in Compensated Absences	<u>255</u>
Total Adjustment to Net Change in Fund Balance to Arrive at Change in Net Position	<u>\$ 7,467</u>

NOTE 4 PENSION PLANS

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

All full-time and certain part-time employees of the 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.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 4 PENSION PLANS (CONTINUED)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The 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 ten 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 ten 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 GERS 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.

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 web at 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.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 4 PENSION PLANS (CONTINUED)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

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. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. The 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 General Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$5,710, \$5,854, and \$5,747, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 5 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; worker's compensation of 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.

NOTE 6 OPERATING LEASE

The lease for the District office space expired December 31, 2013. Starting January 1, 2014 the lease is now on a month-by-month basis at a rate of \$1,008 per month. The lease can now be terminated with 60 days advance notice by the District. The total of the lease payments in 2013 were \$12,096.

NOTE 7 GOING CONCERN CONSIDERATION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the District as a going concern. However, the District has experienced low levels of unassigned cash as a result of operating expenditures over operating revenues. The District is attempting to restructure their processes to reduce operating expenses.

Management believes that placing additional emphasis on reducing operating expenditures, including rent and labor and related benefits, provides for the District to continue as a going concern. The financial statements do not include any adjustment that might be necessary if the District is unsuccessful in these plans.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Intergovernmental				
County	\$ 68,503	\$ 68,003	\$ 68,003	\$ -
State Grants	221,032	84,517	47,688	(36,829)
Total Intergovernmental	289,535	152,520	115,691	(36,829)
Charges for Services	19,700	57,300	78,939	21,639
Miscellaneous				
Interest Earnings	20	20	6	(14)
Other	2,900	2,050	1,966	(84)
Total Miscellaneous	2,920	2,070	1,972	(98)
Total Revenues	312,155	211,890	196,602	(15,288)
EXPENDITURES				
District Operations				
Personnel Services	108,508	109,808	105,889	3,919
Other Services and Charges	147,379	57,649	47,189	10,460
Supplies	1,950	1,950	1,947	3
Total District Operations	257,837	169,407	155,025	14,382
Project Expenditures				
District	35,100	24,035	53,931	(29,896)
State	19,208	18,408	5,630	12,778
Total Project Expenditures	54,308	42,443	59,561	(17,118)
Total Expenditures	312,145	211,850	214,586	(2,736)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	10	40	(17,984)	(18,024)
Fund Balance - Beginning of Year	26,919	26,919	26,919	-
FUND BALANCE - END OF YEAR	<u>\$ 26,929</u>	<u>\$ 26,959</u>	<u>\$ 8,935</u>	<u>\$ (18,024)</u>

See accompanying Notes to Required Supplementary Information.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013**

I. General Fund Policies

The Board of Supervisors adopts estimated revenue and expenditure budgets for the general fund.

The budget may be amended or modified at any time by the Board of Supervisors and updated on the general ledger system. Expenditures may not legally exceed budgeted revenues. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the general fund.

II. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget at the fund level for the year ended December 31, 2013:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 214,586	\$ 211,850	\$ (2,736)

III. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*

**INDEPENDENT AUDITORS' 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**

Board of Supervisors
North St. Louis Soil and Water Conservation District
Virginia, Minnesota

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 accompanying financial statements of the governmental activities and general fund of the North St. Louis Soil and Water Conservation District (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, and have issued our report thereon dated February 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North St. Louis 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 North St. Louis Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the North St. Louis Soil and Water Conservation District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as 2013-01 to 2013-09 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North St. Louis Soil and Water Conservation District's financial statements are free of 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North St. Louis Soil and Water Conservation District's Response to Findings

The North St. Louis Soil and Water Conservation District's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The North St. Louis Soil and Water Conservation District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
February 21, 2014

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**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2013**

MATERIAL WEAKNESSES - FINANCIAL REPORTING

2013-01 FINANCIAL STATEMENT PRESENTATION

Criteria: The North St. Louis Soil and Water Conservation District (District) management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 34.

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

Cause: The District has a limited number of personnel with financial reporting experience.

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

Recommendation: We recommend that the District be aware of the requirements for fair presentation of the financial statements in accordance with the Governmental Accounting Standards Board Statement No. 34. Should the District elect, based upon an analysis of costs and benefits, to establish the full oversight of the financial statement preparation of an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us; complete the disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED)

2013-02 AUDIT ADJUSTMENTS

Criteria: The North St. Louis Soil and Water Conservation District's (District) management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions, including account coding, reporting of accruals and net position.

Condition: As part of the audit, we proposed material adjustments for recording of receipts, receivables and payables, and reclassifying transactions to the proper accounts.

Cause: The District has a limited number of personnel with financial reporting experience.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the District to provide accurate accrual basis financial information.

Recommendation: We recommend District management be constantly aware of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

2013-03 SEGREGATION OF DUTIES

Criteria: District management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the District. In addition, District management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control is not in place in the District.

Cause: The District has a limited number of personnel within the affected departments and offices.

Possible 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 consistently 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 receipting processes and provide oversight to ensure the internal control policies and procedures are being implemented by organization staff.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED)

2013-04 CASH HANDLING PROCEDURES

Criteria: Procedures should be in place to ensure money received is deposited on a timely basis. Procedures should also be in place to safeguard receipts of funds. Having large amounts of undeposited cash increases the risk of misplacement or misappropriation of the cash. Having receipts of funds that are not locked in a safe location and restrictively endorsing checks upon receipt, increases the risk of misplacement or misappropriation of the receipts.

Condition: During our audit, we noted the District received over \$3,000 in cash transactions for 2014 advance tree sales which were not deposited into a bank account and were not restrictively endorsed. Instead, these collections are stored in envelopes in an unlocked box in the office.

Cause: Past practice.

Effect: Not depositing cash on a regular basis and not restrictively endorsing and locking up receipts provides a greater opportunity for fraudulent activity occurring and not being detected in a timely manner.

Recommendation: We recommend District management adopt policies and implement procedures to safeguard receipts of District funds and to reconcile and deposit cash collections intact and on a timely basis.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

2013-05 CONTROLS OVER DISBURSEMENTS

Criteria: Standard internal control procedures recommend that all disbursements should be properly supported and approved by supervisory personal prior to payment.

Condition: We were not presented with proper supporting documentation for 3 of 25 items tested in order to demonstrate proper supervisory approval of disbursements prior to payment.

Cause: Unknown.

Effect: Without proper approval of disbursements, the District is at an increased risk of funds being disbursed that are not in accordance with the District's programs, policies and goals.

Recommendation: We recommend that the District management develop and implement a process to ensure all disbursements are properly reviewed and approved by a Board member prior to being paid.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED)

2013-06 PRESIGNING OF CHECKS

Criteria: Standard internal control procedures recommend that all checks, voucher request forms and supporting documents be properly completed prior to review and approval by supervisory personnel for payment.

Condition: We noted that blank checks were being presented to the Board with the voucher requests and supporting documents. These checks were being signed without being properly completed.

Cause: Past practice.

Effect: Without proper completion of checks prior to approval and signing, the District is at an increased risk of funds being disbursed that are not in accordance with the District's programs, policies and goals.

Recommendation: We recommend that District management develop and implement a process to ensure all checks are properly completed prior to review, approval, and signing by a Board member.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

2013-07 JOURNAL ENTRIES

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

Condition: As part of the audit, we reviewed all journal entries and tested the procedures related to journal entries. We tested three individual journal entries for correctness. During this testing, it was noted that there was no review of the entries prior to them being posted to the general ledger.

Cause: Past practice.

Effect: The design of the internal control over the journal entry process could adversely affect the District'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 errors, 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 District's opportunity for improving segregation of duties is somewhat limited by cost-benefit consideration, however, the process of reviewing journal entries would eliminate some of the segregation of duties issue noted within the District.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED)

2013-08 APPROVAL OF PAYROLL

Criteria: Standard internal control procedures recommend that all disbursements should be approved by supervisory personnel prior to payment.

Condition: During internal control testing, we were not presented with supporting documentation to demonstrate supervisory approval over payroll disbursements.

Cause: Unknown.

Effect: Without proper approval of payroll disbursements, the District is at an increased risk of funds being disbursed that are not in accordance with the District's programs, policies and goals.

Recommendation: We recommend that the District management develop and implement a process to ensure all payroll disbursements are properly reviewed and approved by a Board member prior to being paid.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

2013-09 LACK OF GASB 54 POLICY

Criteria: Governmental Accounting Standards Board (GASB) Statement Number 54 suggests entities have a formally approved fund balance policy.

Condition: As part of the audit procedures performed, it was noted that the District has adopted the principles of GASB 54, but has not formally adopted a GASB 54 Fund Balance Policy.

Cause: The District was not aware of this requirement.

Effect: Controls over fund balance can be improved.

Recommendation: We recommend the District develop, approve, and implement a GASB 54 policy.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

**NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE:

2013-10 DATA RETENTION

Criteria: *Minnesota Statutes* §138.17 requires municipalities to maintain records in accordance with the policies and procedures of the Records Disposition Panel for the State of Minnesota.

Condition: As part of our procedures performed, we noted the District files still contained records that dated back into the 1980's.

Cause: Unknown.

Effect: Not in compliance with *Minnesota Statutes*.

Recommendation: We recommend the District develop procedures and policies to ensure all required documentation are maintained in accordance with *Minnesota Statutes*.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

2013-11 OUT-OF-STATE TRAVEL POLICY

Criteria: *Minnesota Statutes* §471.661, requires municipalities to adopt and annually approve and out-of-state travel policy for elected officials.

Condition: As part of the testing for 2013, the District was unable to provide documentation that an out-of-state travel policy has been adopted for elected officials.

Cause: Unknown.

Effect: Not in compliance with *Minnesota Statutes*.

Recommendation: We recommend that the District develop the required policy and adopt it during 2014.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

NORTH ST. LOUIS SOIL AND WATER CONSERVATION DISTRICT
VIRGINIA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE (CONTINUED):

2013-12 **RECORD OF CLOSED MEETING**

Criteria: *Minnesota Statutes* §13D.01, requires municipalities to electronically record closed meetings if not under attorney-client privilege.

Condition: As part of the testing for 2013, the District was unable to provide the recording for a closed meeting that was not under attorney-client privilege.

Cause: Unknown.

Effect: Not in compliance with *Minnesota Statutes*.

Recommendation: We recommend that the District record all closed meetings as required by *Minnesota Statutes* §13D.01.

CLIENT'S RESPONSE:

The District acknowledges they have received this finding.

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Supervisors
North St. Louis Soil and Water Conservation District
Virginia, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and general fund of the North St. Louis Soil and Water Conservation District (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 and have issued our report thereon dated February 21, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as noted in the Schedule of Findings and Recommendations as 2013-10 to 2013-12. 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 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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
February 21, 2014

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