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REPORT OF THE
STATE AUDITOR of MINNESOTA

880418

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

FOR THE YEAR ENDED JUNE 30, 1987



ARNE H. CARLSON

State Auditor
St. Paul, Minnesota

REPORT OF THE STATE AUDITOR
ON THE
FINANCIAL AFFAIRS
OF
CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA
FOR THE YEAR ENDED JUNE 30, 1987

ARNE H. CARLSON
State Auditor
Saint Paul, Minnesota

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

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CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

ORGANIZATION

	<u>Position</u>	<u>Term Expires</u>
Supervisors		
Lewis Marsh	Chairman	December 1988
Owen Bartles	Vice Chairman	December 1992
Richard Payne	Secretary	December 1990
Robert Bilden	Treasurer	December 1992
Gordon Huseh	Member	December 1988
Employees		
Milayne Larson-Ettish	District Manager	Indefinite
James Douglas Thompson	District Technician	Indefinite



ARNE H. CARLSON
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR
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296-2551

AUDITOR'S OPINION

The Honorable Lewis Marsh, Chairman
and Board of Supervisors
Clearwater Soil and Water
Conservation District
Post Office Box 327
Bagley, Minnesota 56621

We have examined the general purpose financial statements of the Clearwater Soil and Water Conservation District as of and for the year ended June 30, 1987, as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the general purpose financial statements referred to above present fairly the financial position of the Clearwater Soil and Water Conservation District at June 30, 1987, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive affect to the change, with which we concur, in reporting the note payable as discussed in Note 1.H to the financial statements.

A handwritten signature in dark ink, appearing to read "Arne H. Carlson".

ARNE H. CARLSON
State Auditor

January 15, 1988

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

EXHIBIT A

COMBINED BALANCE SHEET
GENERAL FUND AND ACCOUNT GROUPS
JUNE 30, 1987

<u>Assets</u>	<u>Account Groups</u>			<u>Total (Memorandum Only)</u>
	<u>General Fund</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
Cash				
Checking accounts	\$ 1,043	\$ -	\$ -	\$ 1,043
Savings accounts	14,913	-	-	14,913
Petty cash	25	-	-	25
Accounts receivable	4,718	-	-	4,718
Due from other governments	1,115	-	-	1,115
Interest receivable	68	-	-	68
Amount to be provided for compensated absences	-	-	691	691
Amount to be provided for payment of installment note	-	-	6,500	6,500
Fixed assets	-	20,942	-	20,942
<u>Total Assets</u>	<u>\$ 21,882</u>	<u>\$ 20,942</u>	<u>\$ 7,191</u>	<u>\$ 50,015</u>
 <u>Liabilities and Fund Equity</u>				
Liabilities				
Accounts payable	\$ 1,133	\$ -	\$ -	\$ 1,133
Salaries payable	560	-	-	560
Due to other governments	6,050	-	-	6,050
Compensated absences	-	-	691	691
Note payable	-	-	6,500	6,500
Deferred revenue	9,879	-	-	9,879
<u>Total Liabilities</u>	<u>\$ 17,622</u>	<u>\$ -</u>	<u>\$ 7,191</u>	<u>\$ 24,813</u>
Fund Equity				
Investment in general fixed assets	\$ -	\$ 20,942	\$ -	\$ 20,942
Fund Balance - Unreserved				
Designated for public relations and education	500	-	-	500
Undesignated	3,760	-	-	3,760
<u>Total Fund Equity</u>	<u>\$ 4,260</u>	<u>\$ 20,942</u>	<u>\$ -</u>	<u>\$ 25,202</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 21,882</u>	<u>\$ 20,942</u>	<u>\$ 7,191</u>	<u>\$ 50,015</u>

The notes to the financial statements are an integral part of this statement.

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

EXHIBIT B

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1987

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental			
County grant	\$ 26,000	\$ 26,000	\$ -
State grant	<u>24,015</u>	<u>18,079</u>	<u>(5,936)</u>
Total intergovernmental	<u>\$ 50,015</u>	<u>\$ 44,079</u>	<u>\$ (5,936)</u>
Charges for services	<u>\$ 14,850</u>	<u>\$ 18,506</u>	<u>\$ 3,656</u>
Miscellaneous			
Interest	\$ 500	\$ 882	\$ 382
Other	<u>250</u>	<u>2,081</u>	<u>1,831</u>
Total miscellaneous	<u>\$ 750</u>	<u>\$ 2,963</u>	<u>\$ 2,213</u>
Total Revenues	<u>\$ 65,615</u>	<u>\$ 65,548</u>	<u>\$ (67)</u>
Expenditures			
District operations			
Personal services	\$ 35,425	\$ 35,306	\$ 119
Other services and charges	4,125	3,389	736
Supplies	2,325	2,100	225
Capital outlay	<u>-</u>	<u>2,000</u>	<u>(2,000)</u>
Total district operations	<u>\$ 41,875</u>	<u>\$ 42,795</u>	<u>\$ (920)</u>
Project expenditures			
District	\$ 7,570	\$ 8,000	\$ (430)
State	<u>12,000</u>	<u>5,944</u>	<u>6,056</u>
Total project expenditures	<u>\$ 19,570</u>	<u>\$ 13,944</u>	<u>\$ 5,626</u>
Debt service			
Principal retirement	\$ 3,500	\$ 3,500	\$ -
Interest and fiscal fees	<u>500</u>	<u>881</u>	<u>(381)</u>
Total debt service	<u>\$ 4,000</u>	<u>\$ 4,381</u>	<u>\$ (381)</u>
Total Expenditures	<u>\$ 65,445</u>	<u>\$ 61,120</u>	<u>\$ 4,325</u>

The notes to the financial statements are an integral part of this statement.

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

EXHIBIT B
(Continued)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1987

	Budget	Actual	Variance Favorable (Unfavorable)
Excess of Revenues Over Expenditures	\$ 170	\$ 4,428	\$ 4,258
Fund Balance - July 1, as previously reported	\$ (10,168)	\$ (10,168)	\$ -
Restatement - Note 1.H	10,000	10,000	-
Fund Balance - July 1, as restated	\$ (168)	\$ (168)	\$ -
Fund Balance - June 30	\$ 2	\$ 4,260	\$ 4,258

The notes to the financial statements are an integral part of this statement.

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1987

1. Summary of Significant Accounting Policies

The Clearwater Soil and Water Conservation District was organized under provisions of Minn. Stat. ch. 40. The District is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to six-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 Clearwater Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture's Soil 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 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 financial reporting policies of the District conform to generally accepted accounting principles.

A. Financial Reporting Entity

In conformance with generally accepted accounting principles, the District includes all funds and account groups that are controlled by or dependent on the District Board. Control by and dependence on the District were determined on the basis of budget adoption, taxing authority, obligation of the District to finance any deficits that may occur, and any significant subsidy provided by the District.

The District is not considered a part of Clearwater 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.

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Fund Accounting

The accounts of the Clearwater Soil and Water Conservation District are organized on the basis of a fund and account groups, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

Governmental Funds: General Fund

The General Fund is used to account for all revenues and expenditures incurred in operating the District.

General Fixed Assets Account Group

This account group is used to record the District's general fixed assets.

General Long-Term Debt Account Group

This account group records compensated absences (earned but unpaid vacation and sick leave) and the notes payable.

C. Basis of Accounting--Modified Accrual Basis

The District's financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the corresponding liabilities are incurred.

D. Budget

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.

E. Assets, Liabilities, and Fund Equity Accounts

1. Assets

General fixed assets are valued at historical or estimated historical cost and are recorded as expenditures at the time of their purchase. No depreciation is calculated on general fixed assets.

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Fund Equity Accounts (Continued)

2. Liabilities

Long-term liabilities, such as compensated absences and notes payable, are accounted for in the General Long-Term Debt Account Group.

3. Fund Balance

Fund balance consists of:

The unreserved designated fund balance indicates the portion of fund balance that the District has set aside for planned future projects.

Unreserved, undesignated fund balance indicates the portion of fund balance which is available for budgeting and spending in future periods.

F. Revenues and Expenditures

1. Revenues

Intergovernmental

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenue 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.

Other

Investment income (reported as Miscellaneous Revenue) and revenue from the sale of trees (reported as Charges for Services) are recognized when earned, since they are measurable and available. Other revenues generally are recognized when they are received in cash because they usually are not measurable until then.

2. Expenditures

Project expenditures represent costs which are funded from State or District revenues. State project expenditures consist of grants to participants for the cost-share program, the streambank, lakeshore and roadside program, and other state-authorized projects.

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

1. Summary of Significant Accounting Policies

F. Revenues and Expenditures

2. Expenditures (Continued)

District project expenditures are costs of materials and supplies in the sale of trees, tree planting and other District projects.

Vacation and sick leave are considered expenditures when they are paid to employees.

G. Total Column on Combined Statement

The total column on the combined balance sheet is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column do not present financial position or results of operations in conformity with generally accepted accounting principles.

H. Fund Balance Restatement - Note Payable

For the year ended June 30, 1986, the District reported a note payable (Note 2.B) in the General Fund. The July 1, 1986, General Fund fund balance has been restated and the note payable is now included in the General Long-Term Debt Account Group.

2. Detailed Notes on All Funds and Account Groups

A. Assets

Changes in General Fixed Assets

	<u>Balance</u> <u>July 1, 1986</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1987</u>
Equipment	\$ 18,942	\$ 2,000	\$ -	\$ 20,942

B. Liabilities

Deferred Revenue

Deferred revenue represents advances from the Minnesota Department of Agriculture for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue for the year ended June 30, 1987, consists of the following:

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

2. Detailed Notes on All Funds and Account Groups

B. Liabilities

Deferred Revenue (Continued)

Cost-share program			
Fiscal year 1986	\$	3,120	
Fiscal year 1987		5,879	
Private forest management cost share program		880	
Total	\$	9,879	

Retirement Plan

The District participates in a state-wide pension plan administered by the Public Employees Retirement Association. Substantially all District employees are members of this plan, which requires contributions from both employees and employers. Clearwater District's employer contributions for the year ended June 30, 1987, were \$1,225. This amount includes a provision for prior service costs.

The Association has annual actuarial valuations; the report for the year ended June 30, 1987, shows (in thousands):

	Public Employees
Reserves needed for retired members and beneficiaries	\$ 1,320,760
Reserves needed for active and deferred members	1,868,202
Total reserves needed	\$ 3,188,962
Assets (net)	2,457,899
Unfunded reserves	\$ 731,063

The Public Employees Retirement Fund is 77 percent funded. Because the Public Employees Retirement Association is a state-wide pension plan, statements reflecting each local government's share of unfunded reserves are not available.

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

2. Detailed Notes on All Funds and Account Groups

B. Liabilities

Vacation and Sick Leave (Continued)

leave accrual varies from 4 to 8 hours per 80 hours worked. Sick leave accrual is 4 hours per 80 hours worked. Upon termination from the District, employees are paid accrued vacation leave.

Compensated Absences

Changes in compensated absences for the year ended June 30, 1987, are:

Balance July 1, 1986	\$ 881
Net changes in compensated absences	<u>(190)</u>
Balance June 30, 1987	<u>\$ 691</u>

Note Payable

The District has one \$10,000 note dated June 18, 1986, outstanding at June 30, 1987. Payments are due annually at 80 percent of profits from no-till drill rental and 10 percent interest.

A summary of note payable for the year ended June 30, 1987, is as follows:

Payable - July 1, 1986	\$ 10,000
Principal retired	<u>3,500</u>
Payable - June 30, 1987	<u>\$ 6,500</u>
Interest paid in 1986-87 during the year ended June 30, 1987	<u>\$ 881</u>

3. Deposits and Investments

Minn. Stat. § 118.005 authorizes the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At June 30, 1987, District cash deposits totaled \$15,956. Minnesota statutes require that all District deposits be covered by insurance, surety bond, or collateral.

CLEARWATER SOIL AND WATER CONSERVATION DISTRICT
BAGLEY, MINNESOTA

3. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at June 30, 1987.

	<u>Book Balance</u>	<u>Bank Balance</u>
Covered Deposits		
Insured or collateralized with securities held by the District or its agent in the District's name	\$ 15,956	\$ 19,492
Collateralized with securities held by the pledging financial institution's agent in the District's name	-	-
Total covered deposits	\$ 15,956	\$ 19,492
Uncollateralized	-	-
Total	<u>\$ 15,956</u>	<u>\$ 19,492</u>

MANAGEMENT AND COMPLIANCE LETTER



ARNE H. CARLSON
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR
SUITE 400
525 PARK STREET
SAINT PAUL 55103

296-2551

April 21, 1988

The Honorable Lewis Marsh, Chairman
and Board of Supervisors
Clearwater Soil and Water
Conservation District
Post Office Box 327
Bagley, Minnesota 56621

We have examined the general purpose financial statements of the Clearwater Soil and Water Conservation District as of and for the year ended June 30, 1987, and have issued our report thereon dated January 15, 1988. This letter resulting from part of that examination is organized into sections on internal accounting control, management practices, compliance, and other item for consideration.

INTERNAL ACCOUNTING CONTROL

As part of our examination, we made a study and evaluation of the system of internal accounting control of the District to the extent we considered necessary to evaluate the system, as required by generally accepted auditing standards.

The purpose of our study and evaluation was to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Clearwater Soil and Water Conservation District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, management must make estimates and judgments that assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that:

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

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described above will not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Clearwater Soil and Water Conservation District taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be material weaknesses.

MANAGEMENT PRACTICES

As part of our financial statement examination, we also reviewed certain management practices. The review was not a detailed study of every system, procedure, and transaction. Accordingly, the items presented here may not be all-inclusive of areas where improvement may be needed.

ITEMS ARISING THIS YEAR

Cashing of Personal Checks

The employees of the Soil and Water Conservation District have been using the petty cash fund and daily cash collections to cash personal checks. In some cases the personal checks were withheld from deposit for a period of time.

Stronger internal control is provided when daily cash collections are deposited intact. The receipts journal should be reconciled to each deposit to insure that they are made timely and intact.

We recommend the District maintain a policy against cashing of personal checks.

Client's Response: The recommended policy has been established.

Payroll Advances

Our tests of disbursements revealed that an employee was orally authorized by a Board member to obtain a payroll advance. Any requests for a payment such as this should have written authorization, and could place the District in the position of paying for services that have not been rendered.

We recommend that the Board not allow payroll advances.

Client's Response: The District Board has decided to continue to allow payroll advances if an emergency situation warrants such action. However, in the future payroll advances must have written authorization only after the Supervisor has determined that the employee has already worked the hours that the advance is being granted for.

Sick and Vacation Leave Accruals

The District personnel policy states no limit on hourly accruals of vacation and sick leave hours. As of June 30, 1987, one employee had accumulated 813 hours of sick leave.

We recommend that the Board set a limit on accruals of sick and vacation leave hours. This would reduce the potential liability against the District for a large long-term liability, and also encourage employees to take vacations rather than lose accumulated hours.

Client's Response: The District's Employee Policy presently states "Up to 160 hours of vacation leave may be carried over from one year to the next." Limiting accruals of sick leave hours has been discussed and this item will be changed in the near future. Employees are not paid for any accumulated sick leave at termination of employment under present policy.

COMPLIANCE

Our examination was made in accordance with generally accepted auditing standards and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government promulgated by the Legal Compliance Task Force pursuant to Minn. Stat. § 6.65. Accordingly, the examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories. The results of our tests indicate that for the items tested, Clearwater Soil and Water Conservation District complied with the material terms and conditions of applicable legal provisions, except as described below. Further, for the items not tested, based on our examination and the procedures referred to above, nothing came to our attention to indicate that Clearwater Soil and Water Conservation District had not complied with legal provisions.

ITEM ARISING THIS YEAR

Loan

On June 18, 1986, the Clearwater Soil and Water Conservation District borrowed \$10,000 from a Clearwater County Commissioner for the purchase of a no-till drill. The District had purchased the Lilliston 9860 No-till drill for \$12,620 on July 8, 1985.

The District borrowed the funds after the purchase was made listing the drill as security for the note. The note carries an interest rate of 10 percent with payments to be made at 80 percent of the profits from the rental of the drill.

The District does not have the statutory authority to incur an obligation as defined in Minn. Stat. § 475.51, subd. 3.

We recommend that all future borrowing be pursuant to Minnesota statutes.

OTHER ITEM FOR CONSIDERATION

Finally, we would like to bring to your attention that, in order to assure proper control of the district assets and financial reporting, the services of more than one person is required to perform accounting-related activities. Your District has only one employee to perform these duties. Although this is not unusual in an agency of your size, the District Board should be aware that under these conditions there is a general absence of internal accounting controls, with respect to segregation of duties.

We recommend that the District Board:

- approve all bills,
- compare receipts with bank deposits,
- review bank reconciliations and compare with general ledger cash account,
- verify credits against outstanding tree bills with either a receipt or board-authorized write-off.
- review monthly payroll reports with checks written,
- verify that interest earnings are being recorded.

By performing such oversight duties, the District will strengthen its internal accounting controls.

* * * * *

We are available throughout the year to assist you in implementing any of our suggestions.

We would like to express our appreciation to the Board and the staff for their cooperation and assistance during the audit.



ARNE H. CARLSON
State Auditor