

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2017**



**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**TABLE OF CONTENTS**

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization Schedule		1
<b>Financial Section</b>		
Independent Auditors' Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
General Fund Balance Sheet and Governmental Activities - Statement of Net Position	1	9
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities – Statement of Activities	2	11
Notes to the Financial Statements		12
Required Supplementary Information		
Budgetary Comparison Schedule - General Fund	A-1	21
Notes to the Required Supplementary Information		22
Supplementary Information		
Schedule of Intergovernmental Revenue	B-1	23
<b>Management and Compliance Section</b>		
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 <i>Government Auditing     Standards</i>		24
Independent Auditors' Report on Minnesota Legal Compliance		26
Schedule of Findings and Recommendations		27



## **INTRODUCTORY SECTION**



**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**BOARD OF SUPERVISORS**

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Dave Esselink - District IV	December 31, 2020	Chair
Josh Ossefoort - District II	December 31, 2018	Vice Chair
Eugene Cragoe - District I	December 31, 2020	Treasurer
Roger Hoff - District III	December 31, 2020	Secretary
Angie Raatz - District V	December 31, 2018	Member

**ADMINISTRATION**

<u>NAME</u>	<u>POSITION</u>
Eric Hartman	Director
Doug Bos	Assistant Director
Mary Thompson	Office Manager
Lynette Jauert	Office Manager





## INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
Rock Soil and Water Conservation District  
Luverne, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of Rock Soil and Water Conservation District (the District), as of and for the year ended December 31, 2017, 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 the general fund of Rock Soil and Water Conservation District as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows 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 schedule 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 Rock Soil and Water Conservation District's basic financial statements. The schedule of intergovernmental revenue is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of intergovernmental revenue is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 schedule of intergovernmental revenue is fairly stated, in all material respects, in relation to the basic 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 November 8, 2018, on our consideration of Rock 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 solely 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 the effectiveness of Rock Soil and Water Conservation District's 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 Rock Soil and Water Conservation District's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Alexandria, Minnesota  
November 8, 2018

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017  
(Unaudited)**

The Rock Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the year ended December 31, 2017. 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 THE FINANCIAL STATEMENTS**

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 provide information about the District's general fund. Since Districts are single-purpose government units, the District combines the government-wide and fund financial statements into a single presentation. Rock Soil and Water Conservation District has elected to present in this format.

**The Statement of Net Position and the Statement of Activities**

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 the accrual basis of accounting, which is similar to the accounting used by 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 state and local governmental funding, 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.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**Reporting the District’s General Fund**

Our analysis of the District’s general fund is part of this report. The fund financial statements 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 the fund and the balances left at year-end that are available for spending. This 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 used with the financial statements.

**THE DISTRICT AS A WHOLE**

Our analysis focuses on the net position and change in net position of the District’s governmental activities.

Net Position:

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Current assets	\$1,002,691	\$ 1,619,980
Capital assets, net of depreciation	18,490	21,724
Total assets	<u>\$1,021,181</u>	<u>\$ 1,641,704</u>
Current liabilities	\$ 79,749	\$ 36,439
Unearned revenues	853,342	1,480,416
Total liabilities	<u>\$ 933,091</u>	<u>\$ 1,516,855</u>
Investment in capital assets	\$ 18,490	\$ 21,724
Unrestricted	103,077	103,125
Total net position	<u>\$ 121,567</u>	<u>\$ 124,849</u>

Net position of the District’s governmental activities decreased by \$3,282. 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 \$103,125 at December 31, 2016 to \$103,077 at December 31, 2017.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

Change in Net Position:

	<b>Governmental Activities</b>	
<u>Revenues</u>	<b>2017</b>	<b>2016</b>
Intergovernmental	\$ 1,040,635	\$ 899,643
Charges for services	17,663	41,409
Investment earnings	3,472	1,595
Miscellaneous	2,257	1,059
Total revenues	\$ 1,064,027	\$ 943,706
<u>Expenditures</u>		
Conservation	\$ 1,067,309	\$ 948,514
Total expenses	\$ 1,067,309	\$ 948,514
Increase (decrease) in net position	\$ (3,282)	\$ (4,808)

The District's total revenues increased by \$120,321 or 12.7%. The total cost of all programs and services increased by \$118,795 or 12.5% with existing programs, primarily due to increased project costs. The net position for governmental activities decreased by \$3,282 compared to a decrease of \$4,808 in 2016.

**GENERAL FUND**

As the District completed this year, its general fund reported a fund balance of \$103,077 which is slightly below last year's balance of \$103,125. General fund expenditures exceeded revenues by \$48.

**General Fund Budgetary Highlights**

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

The actual charges to appropriations (expenditures) were \$416,875 above the final amounts. The most significant overage occurred in the project expenditure category, with project expenditures exceeding budget by \$398,118. Project expenditures are reimbursed with intergovernmental revenue and do not represent a cost to taxpayers.

Resources available for appropriation were \$369,867 below budget due to intergovernmental revenue exceeding budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

At the end of 2017, the District had \$18,490 invested in a broad range of capital assets, including office equipment, survey equipment, tree planting equipment and tree matting equipment. Depreciation expense totaled \$3,234 and there were no additions or disposals in 2017.

The District does not have any long-term liabilities as of December 31, 2017.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's elected officials considered many factors when setting the fiscal year 2018 budget and fees. Such factors include agricultural and nonagricultural job growth, population growth, unemployment figures, inflation, and other indicators.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Rock Soil and Water Conservation District's finances. Questions concerning any of the financial information provided in this report or requests for additional financial information should be addressed to the Director of the Rock Soil and Water Conservation District, Eric Hartman, 311 W Gabrielson Road, Luverne, MN 56156 at 507-283-8862

## **BASIC FINANCIAL STATEMENTS**



**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**EXHIBIT 1**

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES – STATEMENT OF NET POSITION  
WITH ADJUSTMENTS TO CONVERT MODIFIED ACCRUAL TO FULL ACCRUAL  
DECEMBER 31, 2017**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets and Deferred Outflows of Resources</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 1,001,841	\$ -	\$ 1,001,841
Accounts receivable	658	-	658
Due from other governments	33,669	-	33,669
<b>Noncurrent assets</b>			
Capital assets			
Depreciable - net	-	18,490	18,490
<b>Total Assets</b>	<b>\$ 1,036,168</b>	<b>\$ 18,490</b>	<b>\$ 1,054,658</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 28,150	\$ -	\$ 28,150
Due to other governments	51,599	-	51,599
<b>Long-term liabilities</b>			
Unearned revenue	853,342	-	853,342
<b>Total Liabilities</b>	<b>\$ 933,091</b>	<b>\$ -</b>	<b>\$ 933,091</b>
<b>Fund Balance</b>			
Unassigned	103,077	(103,077)	
<b>Total Fund Balance</b>	<b>\$ 103,077</b>	<b>\$ (103,077)</b>	
<b>Net Position</b>			
Net investment in capital assets		\$ 18,490	\$ 18,490
Unrestricted		103,077	103,077
<b>Total Net Position</b>		<b>\$ 121,567</b>	<b>\$ 121,567</b>
<b>Total Liabilities and Fund Balance/Net Position</b>	<b>\$ 1,036,168</b>	<b>\$ 18,490</b>	<b>\$ 1,054,658</b>

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

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LUVERNE, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES – STATEMENT OF NET POSITION  
WITH ADJUSTMENTS TO CONVERT MODIFIED ACCRUAL TO FULL ACCRUAL  
DECEMBER 31, 2017**

**Reconciliation of the General Fund Balance to Net Position**

Fund Balance - General Fund	\$ 103,077
Capital assets are reported on the Statement of Net Position but not on the General Fund Balance Sheet.	<u>18,490</u>
<b>Net Position - Governmental Activities</b>	<b><u><u>\$ 121,567</u></u></b>

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**EXHIBIT 2**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE AND GOVERNMENTAL ACTIVITIES – STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED ACCRUAL AND FULL  
ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 1,040,635	\$ -	\$ 1,040,635
Charges for services	17,663	-	17,663
Interest earnings	3,472	-	3,472
Miscellaneous	2,257	-	2,257
<b>Total Revenues</b>	<b>\$ 1,064,027</b>	<b>\$ -</b>	<b>\$ 1,064,027</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Conservation	\$ 1,064,075	\$ 3,234	\$ 1,067,309
<b>Total Expenditures/Expenses</b>	<b>\$ 1,064,075</b>	<b>\$ 3,234</b>	<b>\$ 1,067,309</b>
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ (48)</b>	<b>\$ (3,234)</b>	<b>\$ (3,282)</b>
<b>Fund Balance/Net Position - January 1</b>	<b>103,125</b>	<b>21,724</b>	<b>124,849</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 103,077</b>	<b>\$ 18,490</b>	<b>\$ 121,567</b>
 <b>Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities</b>			
Net Change in Fund Balance			\$ (48)
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.			
Current year depreciation expense		\$ (3,234)	(3,234)
<b>Change in Net Position of Governmental Activities</b>			<b>\$ (3,282)</b>

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

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**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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1. Summary of Significant Accounting Policies

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2017. 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 are discussed below.

A. Financial Reporting Entity

The Rock Soil and Water Conservation District is organized under the provisions of Minnesota Statutes §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 wetlands and wildlife habitats.

The Rock Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture National 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 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.

Rock County acts as fiscal agent for the District and reports the District as an agency fund of the County.

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.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies – Continued

B. Basic Financial Statements

1. Measurement Focus and Basis of Accounting

Basic financial statements include information on the District’s activities as a whole and information on the individual fund (the General Fund) of the District. These separate presentations are reported in different columns on Exhibits 1 and 2. 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 in two parts: investment in capital assets and unrestricted net position. The Statement of Activities demonstrates the degree to which the expenses of the District are offset by revenues. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The 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. 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.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies – Continued

C. Fund Financial Statements

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.

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

D. Budget Information

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

E. Use of Estimates

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

F. Assets, Liabilities, and Net Position or Equity

1. Assets

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

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

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies – Continued

F. Assets, Liabilities, and Net Position or Equity

2. Liabilities

Current liabilities represent payables to other governments. The District has no long-term liabilities.

3. Unearned Revenue

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

4. 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 - amounts that cannot be spent because they are not in spendable form, or are 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 - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the District’s Supervisory Board. Those committed amounts cannot be used for any other purpose unless the Supervisory Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - 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’s Supervisory Board.
- Unassigned - the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies – Continued

F. Assets, Liabilities, and Net Position or Equity

4. Classifications of Fund Balance

Rock Soil and Water Conservation 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.

G. 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 asset as of the report date, and reconciles to the amount report in the Capital Assets Note.

Depreciation – 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. This number is supported by figures in the note on Capital Assets.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

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2. Detailed Notes

A. Cash

1. Deposits

Cash transactions are administered by the District, who is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Rock County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least 10% more than the amount on deposit 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 and revenue obligations rated "AA" or better; irrevocable standby 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 not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

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. As of December 31, 2017, the District's deposits were not exposed to custodial credit risk.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

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2. Detailed Notes – Continued

A. Cash

2. Investments

The District may invest in the following types of investments as authorized by Minn. Stat. § 118A.04 and § 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District had no investments at December 31, 2017.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

2. Detailed Notes – Continued

B. Receivables

The District did not have any receivables scheduled to be collected beyond one year as of December 31, 2017. Receivables as of December 31, 2017, for the District’s governmental activities, net of the applicable allowances for uncollectible accounts are as follows:

	<u>Receivables</u>
Governmental Activities	
Accounts	\$ 658
Due from other governments	33,669
Total Governmental Activities	<u>\$ 34,327</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Addition</u>	<u>Deletion</u>	<u>Ending Balance</u>
Equipment	\$ 61,422	\$ -	\$ -	\$ 61,422
Less: Accumulated Depreciation	(39,698)	(3,234)	-	(42,932)
Capital Assets, Net	<u>\$ 21,724</u>	<u>\$ (3,234)</u>	<u>\$ -</u>	<u>\$ 18,490</u>

The cost of property, plant, and equipment is depreciated over the estimated useful lives of related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed using the straight-line method. The useful lives of property, plant, and equipment for the purpose of computing depreciation is 5 to 10 years for Machinery and Equipment. Current year depreciation expense of \$3,324 was charged to the District for the year ended December 31, 2017.

The District uses the threshold of \$500 for capitalizing assets purchased.

D. Payables

Payables at December 31, 2017, were as follows:

	<u>Payables</u>
Governmental Activities	
Accounts	\$ 28,150
Due to other governments	51,599
Total Governmental Activities	<u>\$ 79,749</u>

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

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3. Stewardship, Compliance and Accountability

At December 31, 2017, the District's General Fund had expenditures of \$1,064,075, which exceeded the final budgeted expenditures of \$647,200 by \$416,875. These excess expenditures were funded by revenues in excess of budget.

4. Joint Powers

A joint powers agreement between Rock County and Rock Soil and Water Conservation District was entered into pursuant to Minnesota Statutes 471.59 and 103C.231 on April 1, 1996 with amendments made January 22, 2002. The agreement provides for administrative, personnel and financial management and other operational functions necessary to carry out the duties and programs of the Soil and Water Conservation District. The County provides all necessary office space, equipment, supplies, and personnel necessary to administer and operate the program and projects of the Soil and Water Conservation District. However, the Soil and Water Conservation District shall retain the management and control over all funds for conservation projects and practices.

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 omission; 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.

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**REQUIRED SUPPLEMENTARY INFORMATION**



**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
<b>Intergovernmental</b>				
Federal	\$ 15,000	\$ 15,000	\$ 142,809	\$ 127,809
State	654,000	654,000	897,826	243,826
<b>Total Intergovernmental</b>	<b>669,000</b>	<b>669,000</b>	<b>1,040,635</b>	<b>371,635</b>
<b>Charges for services</b>	23,660	23,660	17,663	(5,997)
<b>Miscellaneous</b>	-	-	2,257	2,257
<b>Investment earnings</b>	1,500	1,500	3,472	1,972
<b>Total Revenues</b>	<b>\$ 694,160</b>	<b>\$ 694,160</b>	<b>\$ 1,064,027</b>	<b>\$ 369,867</b>
<b>Expenditures</b>				
<b>District Operations</b>				
Other services and charges	\$ 133,200	\$ 133,200	\$ 153,957	\$ 20,757
Capital outlay	2,000	2,000	-	(2,000)
<b>Total District Operations</b>	<b>135,200</b>	<b>135,200</b>	<b>153,957</b>	<b>18,757</b>
<b>Project Expenditures</b>				
District	15,000	15,000	11,593	(3,407)
State	482,000	482,000	754,022	272,022
Federal	15,000	15,000	142,808	127,808
National Wildlife Federation	-	-	1,695	1,695
<b>Total Project Expenditures</b>	<b>512,000</b>	<b>512,000</b>	<b>910,118</b>	<b>398,118</b>
<b>Total Expenditures</b>	<b>\$ 647,200</b>	<b>\$ 647,200</b>	<b>\$ 1,064,075</b>	<b>\$ 416,875</b>
<b>Net Change in Fund Balance</b>	<b>\$ 46,960</b>	<b>\$ 46,960</b>	<b>\$ (48)</b>	<b>\$ (47,008)</b>
<b>Fund Balance - January 1</b>	<b>103,125</b>	<b>103,125</b>	<b>103,125</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 150,085</b>	<b>\$ 150,085</b>	<b>\$ 103,077</b>	<b>\$ (47,008)</b>

The notes to the required supplementary information are an integral part of this statement.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**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. 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. Budget Basis of Accounting**

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

**III. Expenditures in Excess of Budget**

At December 31, 2017, the District's General Fund had expenditures of \$1,064,075, which exceeded the final budgeted expenditures of \$647,200 by \$416,875. These excess expenditures were funded by revenues in excess of budget.

**SUPPLEMENTARY INFORMATION**



**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

***EXHIBIT B-1***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Grants**

**State**

Minnesota Department/Board of	
Water and Soil Resources	\$ 815,497
Natural Resources	1,170
Agriculture	81,159
<b>Total State</b>	<u>\$ 897,826</u>

**Federal**

Department of	
Fish and Wildlife	<u>\$ 142,809</u>

<b>Total Intergovernmental Revenue</b>	<u><u>\$ 1,040,635</u></u>
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**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  
Rock Soil and Water Conservation District  
Luverne, 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 financial statements of the governmental activities and general fund of Rock Soil and Water Conservation District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Rock Soil and Water Conservation District's basic financial statements, and have issued our report thereon dated November 8, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rock 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 Rock Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of Rock 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 District'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 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be material weaknesses as items 2017-001 through 2017-003.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rock 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.

### **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**

Alexandria, Minnesota  
November 8, 2018

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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Supervisory Board  
Rock Soil and Water Conservation District  
Luverne, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Rock Soil and Water Conservation District (the District) as of December 31, 2017 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 November 8, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 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 administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Rock 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 Rock 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 relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Alexandria, Minnesota  
November 8, 2018

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**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2017**

**MATERIAL WEAKNESSES – FINANCIAL REPORTING**

**2017-001 – SEGREGATION OF DUTIES**

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

**Criteria:** The 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 very few individuals is not desirable from an internal control perspective.

**Cause:** The District has a limited number of personnel.

**Effect:** The lack of adequate segregation of duties can result in incorrect financial information, failure to detect misstatements or misappropriations, and the lack of adherence to the District's procedures.

**Recommendation:** Management should continue to be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by District staff.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:**

**Contact Person:** Eric Hartman, Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipation Completion Date:** December 31, 2018.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2017**

**MATERIAL WEAKNESSES – FINANCIAL REPORTING - Continued**

**2017-002 – AUDIT ADJUSTMENTS**

**Condition:** As part of the audit, we proposed account reclassification entries relating to the coding of receipts and disbursements, accruals, and other reclassifications.

**Criteria:** District management is responsible for establishing and maintaining internal controls for the proper recording of all the District's financial transactions.

**Cause:** The District has a limited number of personnel.

**Effect:** The design of internal controls over recording receipts, disbursements, and accruals could affect the County's ability to detect or prevent a misappropriation of assets or fraudulent activity.

**Recommendation:** Management should continue to be aware of all procedures and processes involved in recording receipts, disbursements, and accruals, and develop internal control policies to ensure proper recording of these items.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:**

**Contact Person:** Eric Hartman, Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipation Completion Date:** December 31, 2018.

**ROCK SOIL AND WATER CONSERVATION DISTRICT  
LIVERNE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2017**

**MATERIAL WEAKNESSES – FINANCIAL REPORTING - Continued**

**2017-003 – APPROVAL OF DISBURSEMENTS**

**Condition:** Eight of twenty-five disbursements tested did not have documentation of review and approval.

**Criteria:** District management is responsible for establishing and maintaining internal controls, including approval of all disbursements made by the District.

**Cause:** Oversight of District procedures.

**Effect:** A lack of controls over disbursements could affect the District's ability to detect or prevent errors.

**Recommendation:** Management and financial personnel should continue to work on establishing a process to ensure that all disbursements are approved by authorized personnel.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:**

**Contact Person:** Eric Hartman, Director

**Corrective Action Planned:** A corrective action plan is in place.

**Anticipation Completion Date:** December 31, 2018.