

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**WABASHA SOIL AND WATER
CONSERVATION DISTRICT
WABASHA, MINNESOTA**

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**WABASHA SOIL AND WATER
CONSERVATION DISTRICT
WABASHA, MINNESOTA**

Year Ended December 31, 2015



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
General Fund Balance Sheet and Statement of Net Position of Governmental Activities	1	9
General Fund Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities of Governmental Activities	2	11
Notes to the Financial Statements		12
Required Supplementary Information		
Budgetary Comparison Schedule - General Fund	A-1	29
PERA General Employees Retirement Fund		
Schedule of Proportionate Share of Net Pension Liability	A-2	30
Schedule of Contributions	A-3	30
Notes to the Required Supplementary Information		31
Management and Compliance Section		
Schedule of Findings and Recommendations		32
Communication of Significant Deficiencies and/or Material Weaknesses in Internal Control Over Financial Reporting and Other Matters		37
Independent Auditor's Report on Minnesota Legal Compliance		39

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2015**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Board of Supervisors		
Chair	Roland Wood	January 2016
Vice Chair	Terry Helbig	January 2017
Treasurer	Tom Gosse	January 2016
Secretary	Chuck Fick	January 2017
Member	Nate Arendt	January 2017
Appointed		
District Manager	Terri Peters	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Wabasha Soil and Water Conservation District
Wabasha, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Wabasha Soil and Water Conservation District as of and for the year ended December 31, 2015, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the Wabasha Soil and Water Conservation District as of December 31, 2015, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2015 the District adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, 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.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(Unaudited)**

The Wabasha Soil and Water Conservation District's (the District) Management's Discussion and Analysis (MD&A) provides an overview of the District's financial activities for the fiscal year ended December 31, 2015. 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 District's financial statements.

FINANCIAL HIGHLIGHTS

- Total net position is (\$110,469), of which \$15,089 is the investment in capital assets.
- The District's net position decreased by \$125,684 for the year ended December 31, 2015.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Wabasha Soil and Water Conservation District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 9. For the General Fund, these statements tell how these services were financed in the short term as well as what remains for future spending. The General Fund statements also report the District's operations in more detail than the government-wide statements by providing information about the District's fund. Since soil and water conservation districts are single-purpose, special-purpose governments, they are generally able to combine the government-wide and fund financial statements into single presentations. The Wabasha Soil and Water Conservation District has elected to present in this format.

The Statement of Net Position and the Statement of Activities

Our analysis of the Wabasha Soil and Water Conservation District as a whole begins on page 9. One of the most important questions asked about the District's finances is, "Is the Wabasha Soil and Water Conservation 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, deferred outflows of resources, liabilities, and deferred inflows of resources

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, deferred outflows of resources, liabilities, and 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.

In the Statement of Net Position and the Statement of Activities, the Wabasha Soil and Water Conservation District presents governmental activities. All of the District's basic services are reported here. Appropriations from Wabasha County and state finance most activities.

Fund Financial Statements

The fund financial statements provide detailed information about the General Fund--not the District as a whole. The Wabasha Soil and Water Conservation 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 that fund and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The General Fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the General Fund in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

**Table 1
Net Position**

	2015	2014	Percent (%) Change
Assets			
Current and other assets	\$ 187,509	\$ 416,106	(54.9)
Capital assets, net of depreciation	15,089	17,766	(15.1)
Total Assets	\$ 202,598	\$ 433,872	(53.3)

	2015	2014	Percent (%) Change
Deferred Outflows of Resources			
Deferred pension outflows	\$ 19,643	\$ -	100.0
Liabilities			
Long-term liabilities	\$ 125,082	\$ 8,386	1,391.6
Other liabilities	173,433	300,558	(42.3)
Total Liabilities	\$ 298,515	\$ 308,944	(3.4)
Deferred Inflows of Resources			
Deferred pension inflows	\$ 34,195	\$ -	100.0
Net Position			
Investment in capital assets	\$ 15,089	\$ 17,766	(15.1)
Unrestricted	(125,558)	107,162	(217.2)
Total Net Position	\$ (110,469)	\$ 124,928	(188.4)
Restatement (Note 1.E.)		(109,713)	
Total Net Position, as restated		\$ 15,215	

The net position of the District's governmental activities decreased from \$124,928 in 2014 before the restatement, compared to (\$110,469) for 2015. The primary reason for the decrease in net position was due to the change in accounting principles, as referenced in Note 1.E. of the notes to the financial statements. 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 \$107,162 to (\$125,558) for the years 2014 and 2015, respectively.

Table 2
Changes in Net Position

	2015	2014	Percent (%) Change
Revenues			
Program revenues			
Intergovernmental revenue	\$ 474,085	\$ 529,123	(10.4)
Charges for services	13,908	22,825	(39.1)
General revenues			
Investment earnings	1,052	1,517	(30.7)
Other	6,836	3,858	77.2
Total Revenues	\$ 495,881	\$ 557,323	(11.0)

	2015	2014	Percent (%) Change
Expenses			
Conservation of natural resources	\$ 621,565	\$ 629,546	(1.3)
Change in Net Position	\$ (125,684)	\$ (72,223)	(74.0)
Net Position, as Restated - January 1	15,215	197,151	(92.3)
Net Position - December 31	\$ (110,469)	\$ 124,928	(188.4)

The Wabasha Soil and Water Conservation District's total revenues decreased by \$61,442. The total cost of all programs and services decreased by \$7,981. The restatement of January 1 net position includes the net pension liability taken on by the District and a prior period adjustment.

The District's General Fund

As the District completed the year, its General Fund reported a combined fund balance of \$14,076, which is below last year's restated amount of \$147,451.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$296,526 below the final budgeted amounts. The most significant negative variance of \$286,536 occurred in intergovernmental - state grants. The most significant positive variance of \$327,240 occurred in project expenditures - state. The reason for both variances relates to grant revenue and the related expenditures not received nor expended as budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2015, the District had \$15,089 invested in equipment. This amount represents a net decrease of \$2,677 from last year. (See Table 3 below.)

Table 3
Capital Assets at Year-End

	2015	2014	Percent (%) Change
Equipment	\$ 58,774	\$ 55,878	5.2
Less: accumulated depreciation	(43,685)	(38,112)	14.6
Net Capital Assets	\$ 15,089	\$ 17,766	(15.1)

This year's changes included \$5,573 of depreciation expense.

Debt Administration

At year-end, the District did not have any outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S GRANT BUDGETS AND RATES

In 2016, the District expects to return funds received for the 2013 Clean Water Fund (CWF) HEL Compliance Grant due to the lack of technical capacity for that program. It is expected that the District will accept the Nitrogen Outreach Program Grant from the Minnesota Department of Agriculture, and time and expenses will be reimbursed through invoicing. Likewise, there may be some increase in the AgCertainty Program funding. New in 2016, the District will receive \$100,000 in Capacity Grant funding from Board of Water and Soil Resources. This will come from Clean Water Funding, and it will require the creation of a work plan. At the end of 2015, a large payment was made for livestock waste management. This is one of two large projects in a 2013 CWF grant. An extension was given for the other project, and that is expected to be paid in 2016. Likewise, the next 40 percent of the grant funding should be received. Other grant and operational funding income and expenses are expected to remain similar to 2015.

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 show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Terri Peters at the Wabasha Soil and Water Conservation District at 611 Broadway Avenue, Suite 10, Wabasha, Minnesota 55981. The phone number is 651-565-4673.

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BASIC FINANCIAL STATEMENTS

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
STATEMENT OF NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

	General Fund	Reconciliation	Governmental Activities
<u>Assets and Deferred Outflows of Resources</u>			
Assets			
Current assets			
Cash and pooled investments	\$ 127,384	\$ -	\$ 127,384
Accounts receivable	7,450	-	7,450
Due from other governments	50,016	-	50,016
Prepaid items	2,659	-	2,659
Capital assets			
Equipment (net of accumulated depreciation)	-	15,089	15,089
Total Assets	\$ 187,509	\$ 15,089	\$ 202,598
Deferred Outflows of Resources			
Deferred pension outflows	-	19,643	19,643
Total Assets and Deferred Outflows of Resources	\$ 187,509	\$ 34,732	\$ 222,241
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 5,498	\$ -	\$ 5,498
Accrued wages	2,706	-	2,706
Accrued payroll taxes	53,809	-	53,809
Unearned revenue	111,420	-	111,420
Noncurrent liabilities			
Net pension liability	-	119,198	119,198
Due after one year	-	5,884	5,884
Total Liabilities	\$ 173,433	\$ 125,082	\$ 298,515
Deferred Inflows of Resources			
Deferred pension inflows	-	34,195	34,195

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

***EXHIBIT 1
(Continued)***

**GENERAL FUND BALANCE SHEET AND
STATEMENT OF NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

	General Fund	Reconciliation	Governmental Activities
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> (Continued)			
Fund Balance/Net Position			
Fund Balance			
Nonspendable for prepaid items	\$ 2,659	\$ (2,659)	
Unassigned	11,417	(11,417)	
Total Fund Balance	\$ 14,076	\$ (14,076)	
Net Position			
Investment in capital assets		\$ 15,089	\$ 15,089
Unrestricted		(125,558)	(125,558)
Total Net Position		\$ (110,469)	\$ (110,469)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 187,509	\$ 34,732	\$ 222,241
Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ 14,076
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.			15,089
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.			19,643
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.			
Compensated absences payable		\$ (5,884)	
Net pension liability		(119,198)	(125,082)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the General Fund.			(34,195)
Net Position - Governmental Activities			\$ (110,469)

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

EXHIBIT 2

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental revenue	\$ 474,085	\$ -	\$ 474,085
Charges for services	13,908	-	13,908
Investment earnings	1,052	-	1,052
Miscellaneous	6,836	-	6,836
Total Revenues	\$ 495,881	\$ -	\$ 495,881
Expenditures/Expenses			
Current			
Conservation of natural resources			
Current	\$ 626,360	\$ (4,795)	\$ 621,565
Capital outlay	2,896	(2,896)	-
Total Expenditures/Expenses	\$ 629,256	\$ (7,691)	\$ 621,565
Net Change in Fund Balance/Net Position	\$ (133,375)	\$ 7,691	\$ (125,684)
Fund Balance/Net Position - January 1, as restated (Note 1.E.)	147,451	(132,236)	15,215
Fund Balance/Net Position - December 31	\$ 14,076	\$ (124,545)	\$ (110,469)
Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities			
Net Change in Fund Balance			\$ (133,375)
Governmental funds report capital outlay 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.			
Expenditures for general capital assets		\$ 2,896	
Current year depreciation		(5,573)	(2,677)
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 the General Fund.			
Change in compensated absences payable		\$ 2,502	
Change in net pension liability, as restated		26,424	
Change in deferred pension outflows, as restated		15,637	
Change in deferred pension inflows		(34,195)	10,368
Change in Net Position of Governmental Activities			\$ (125,684)

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

Page 11

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Summary of Significant Accounting Policies

The Wabasha Soil and Water Conservation District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2015. 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 Wabasha Soil and Water Conservation District is organized under the provisions of Minn. Stat. ch. 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 District.

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 District provides technical and financial assistance to individuals, groups, districts, 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 District is not considered a part of Wabasha 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 the operations of the District.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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 has no component units.

B. Basic Financial Statements

Basic financial statements include information on the Wabasha Soil and Water Conservation District's activities as a whole and information on the General Fund of the District. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits 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 a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Wabasha Soil and Water Conservation District's net position is reported in two parts: investment in capital assets and unrestricted net position. The Wabasha Soil and Water Conservation District first utilizes restricted resources to finance qualifying activities. The Statement of Activities demonstrates the degree to which the expenses of the District are offset by revenues.

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

C. Measurement Focus and Basis of Accounting

The governmental activities columns 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.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund columns (General Fund) 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. The Wabasha Soil and Water Conservation District considers all revenues as available if collected within 60 days after the end of the current period. Charges for services are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent that they have matured.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Investments

Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

2. Receivables

Receivables are collectible within one year.

3. Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Equipment of the District is depreciated using the straight-line method over the estimated useful lives from five to ten years.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

5. Compensated Absences

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 7.38 to 12.3 hours per month. Sick leave accrual is 8.6 hours per month. The limit on the accumulation of vacation leave is 200 hours, and the limit on the accumulation of sick leave is 1,040 hours. Upon termination of employment from the District, employees are paid accrued vacation leave and sick leave hours.

6. Unearned Revenue

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

7. Pension Plan

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

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expenditure/expense) until then. The District is reporting one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District is reporting one item, deferred pension inflows, that qualifies for reporting in this category. These inflows arise only under the full accrual basis of accounting and consist of the differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

9. Classification of Net Position

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

- Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

9. Classification of Net Position (Continued)

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

10. Classification of Fund Balance

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 - the nonspendable fund balance category includes 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 - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation.
- Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the District. Those committed amounts cannot be used for any other purposes unless the District removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts in the assigned fund balance classification include amounts the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District or the District Administrator who has been delegated that authority by District resolution.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. Classification of Fund Balance (Continued)

- Unassigned - unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

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

At December 31, 2015, the General Fund had \$2,659 in nonspendable fund balance. The remaining fund balance is classified as unassigned.

11. 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 certain 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/expenses during the reporting period. Actual results could differ from those estimates.

12. Risk Management

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through the 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.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

12. Risk Management (Continued)

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.

E. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles

During the year ended December 31, 2015, the Wabasha Soil and Water Conservation District adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the District to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the District's net pension liability and related deferred outflows of resources.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position (Continued)

2. Prior Period Adjustments

Restatement of Unearned Revenue, Fund Balance, and Net Position

The January 1, 2015, General Fund fund balance and net position were increased by \$31,903 to correct a prior year overstatement of unearned revenue. The effect of the restatement on net position is disclosed in Note 1.E.3. The effect on fund balance is as follows:

	Balance at January 1, 2015, as Previously Reported	Prior Period Adjustment	Balance at January 1, 2015, as Restated
General Fund fund balance	\$ 115,548	\$ 31,903	\$ 147,451

3. Restatement of Net Position

Restatements of net position for the governmental activities are as follows:

Net Position, January 1, 2015, as previously reported	\$ 124,928
Change in accounting principles	(141,616)
Prior period adjustment	31,903
Net Position, January 1, 2015, as restated	\$ 15,215

2. Detailed Notes

A. Deposits

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

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

2. Detailed Notes

A. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable 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 that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk for Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2015, the District's deposits were not exposed to custodial credit risk.

B. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Capital assets depreciated				
Equipment	\$ 55,878	\$ 2,896	\$ -	\$ 58,774
Less: accumulated depreciation for Equipment	38,112	5,573	-	43,685
Total Capital Assets, Net	<u>\$ 17,766</u>	<u>\$ (2,677)</u>	<u>\$ -</u>	<u>\$ 15,089</u>

Current year depreciation is \$5,573.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

2. Detailed Notes (Continued)

C. Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended December 31, 2015, are:

Payable - January 1, 2015	\$ 8,386
Net change in compensated absences	<u>(2,502)</u>
Payable - December 31, 2015	<u>\$ 5,884</u>

D. Unearned Revenue

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2015, consists of the following: Aquatic Invasive Species Fund, \$77,106; 2012 Cooperative Weed Management Area (CWMA), \$2,501; 2014 CWMA, \$5,069; 2014 Highly Erodable Lands Compliance, \$16,744; and fiscal year 2015 and 2016 Wetland Conservation Act Funds, \$10,000; for a total of \$111,420.

3. Defined Benefit Pension Plan

A. Plan Description - Public Employees Retirement Association

All full-time and certain part-time employees of the Wabasha Soil and Water Conservation District are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

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 General Employees Retirement Fund 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 of service 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 General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, the District was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

The District's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$14,478. The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

At December 31, 2015, the District reported a liability of \$119,198 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0023 percent. It was 0.0031 percent measured as of June 30, 2014. The District recognized pension expense of \$6,494 for its proportionate share of the General Employees Retirement Fund's pension expense.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

3. Defined Benefit Pension Plan

D. Pension Costs (Continued)

The District reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 6,010
Difference between projected and actual investment earnings	11,284	-
Changes in proportion	-	28,185
Contributions paid to PERA subsequent to the measurement date	8,359	-
Total	\$ 19,643	\$ 34,195

A total of \$8,359 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (8,577)
2017	(8,577)
2018	(8,577)
2019	2,820

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

3. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 187,422	\$ 119,198	\$ 62,856

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

4. Summary of Significant Contingencies

Contingent Liabilities

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
County	\$ 133,000	\$ 133,000	\$ 133,346	\$ 346
Federal	49,000	49,000	11,290	(37,710)
State grant	615,985	615,985	329,449	(286,536)
Total intergovernmental	\$ 797,985	\$ 797,985	\$ 474,085	\$ (323,900)
Charges for services	\$ 9,400	\$ 9,400	\$ 13,908	\$ 4,508
Miscellaneous				
Interest income	\$ 4,030	\$ 4,030	\$ 1,052	\$ (2,978)
Other	3,000	3,000	6,836	3,836
Total miscellaneous	\$ 7,030	\$ 7,030	\$ 7,888	\$ 858
Total Revenues	\$ 814,415	\$ 814,415	\$ 495,881	\$ (318,534)
Expenditures				
Current				
Conservation of natural resources				
District operations				
Personnel services	\$ 264,686	\$ 264,686	\$ 287,553	\$ (22,867)
Other services and charges	48,393	48,393	57,424	(9,031)
Supplies	6,350	6,350	2,663	3,687
Total district operations	\$ 319,429	\$ 319,429	\$ 347,640	\$ (28,211)
Project expenditures				
District	\$ 7,200	\$ 7,200	\$ 6,807	\$ 393
State	599,153	599,153	271,913	327,240
Total project expenditures	\$ 606,353	\$ 606,353	\$ 278,720	\$ 327,633
Capital outlay				
District operations	\$ -	\$ -	\$ 2,896	\$ (2,896)
Total Expenditures	\$ 925,782	\$ 925,782	\$ 629,256	\$ 296,526
Net Change in Fund Balance	\$ (111,367)	\$ (111,367)	\$ (133,375)	\$ (22,008)
Fund Balance - January 1, as restated (Note 1.E.)	147,451	147,451	147,451	-
Fund Balance - December 31	\$ 36,084	\$ 36,084	\$ 14,076	\$ (22,008)

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

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0023%	\$ 119,198	\$ 170,509	69.91%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 12,983	\$ 14,478	\$ -	\$ 173,088	8.36%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The Wabasha Soil and Water Conservation District's year-end is December 31.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Budgetary Information

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

2. Excess of Revenues Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2015, as follows:

	Actual	Expenditures Final Budget	Excess
Current			
Conservation of natural resources			
District operations	\$ 347,640	\$ 319,429	\$ 28,211
Capital outlay			
District operations	2,896	-	2,896

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

INTERNAL CONTROL OVER FINANCIAL REPORTING

ITEMS ARISING THIS YEAR

Finding 2015-001

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the District's financial statements.

Context: The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. Independent external auditors cannot be considered part of the District's internal control.

Effect: The following audit adjustments were necessary:

General Fund -

- due from other governments and unearned revenue were increased by \$50,016 to properly record a receivable incorrectly recorded as a reduction to accounts payable; and
- conservation of natural resources expenditures and accrued payroll taxes payable were increased by \$20,201 to properly record year-end payroll accruals.

Cause: The District informed us that the \$20,201 adjustment was due to an estimate initially recorded for the anticipated payroll taxes to be paid. The adjustment for \$50,016 was the result of an oversight during the preparation of the District's financial statements.

Recommendation: We recommend the District staff review its financial statement closing procedures, trial balances, and journal entries in detail to ensure that all significant adjustments have been made appropriately to fairly present the District's financial statements in accordance with generally accepted accounting principles.

Client's Response:

At the time the financial statements were completed, the District did not yet have a total for outstanding payroll tax items due from the Internal Revenue Service (IRS). This had been requested. The District was in the process of working with them and some charges were being appealed at that time.

The District originally recorded the \$50,016 as revenue as it showed as an outstanding invoice at the time and it had not been received. Since the District did not yet have the funds, they did not consider it deferred revenue and recorded the item in revenue where outstanding invoices may normally be shown.

Finding 2015-002

Prior Period Adjustment

Criteria: A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. One indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: During our audit, we identified the need to restate the beginning net position and the General Fund's beginning fund balance of the District's statement of financial position to correct an overstatement in unearned revenue in the prior year's financial statements. The December 31, 2014, unearned revenue account balance was overstated as the result of including incorrect transactions. The restatement resulted in significant changes to the District's financial statements. The prior period adjustment to restate the District's financial statements was reviewed and approved by the appropriate District staff and is reflected in the financial statements.

Context: The need for prior period adjustments can raise doubts as to the reliability of the District's financial information being presented.

Effect: The January 1, 2015, net position of the governmental activities and the General Fund fund balance were restated (increased) by \$31,903.

Cause: The calculation of unearned revenue was in error, as incorrect transactions were included in the calculation.

Recommendation: We recommend District staff perform a thorough review of the calculation of unearned revenue to ensure that the balance of unearned revenue will be correct and properly recorded to fairly present the District's financial statements in accordance with generally accepted accounting principles.

Client's Response:

Jennifer Monsos did not begin contract work with the District until October 2015. The prior period adjustment was done to address inaccuracies not detected by previous auditors for the 2014 audit. The errors in bookkeeping were made by an employee of the District who is no longer employed with the District. Once the problem was discovered the District immediately took steps to address and correct problems that had been created.

Finding 2015-003

Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion. Responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

Condition: The District lacks the proper segregation of duties. The District collects fees, however, the District often has only one individual who is responsible for receiving and accounting for fee collections.

Context: Due to the limited number of office personnel within the District, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Wabasha Soil and Water Conservation District; however, the District's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The District indicated that it does not have the economic resources needed to hire additional accounting staff in order to segregate duties in the fee collection function.

Recommendation: We recommend the District's elected officials and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

Client's Response:

The District's elected officials and management are aware of the lack of segregation of duties of the accounting functions. Wherever possible, they try to find ways to provide segregation of duties of these accounting functions. There has been work done to provide the internal control of management and bookkeeping checking each other's work, and financial statements are shown to the Board and reviewed. A finance committee meets periodically to review documents.

PREVIOUSLY REPORTED ITEMS RESOLVED

Grant Accounting and Unearned Revenue Not Reconciled (2014-001)

The District did not properly reconcile to the grant activity as recorded. Some income received as grants was not properly classified as unearned revenue. Audit adjustments to unearned revenue were proposed to properly record grant activity.

Resolution

For 2015, the District properly reconciled the grant activity.

Reconciling of Bank Accounts (2014-002)

In the prior year, bank statements for the various bank accounts were not reconciled to the general ledger.

Resolution

The bank statements for 2015 were reconciled to the general ledger.

Payroll Taxes (2014-003)

In the prior year, payroll taxes were not paid in a timely manner. All payroll taxes for 2014 were still owed as of December 31, 2014.

Resolution

Payroll taxes for both 2014 and 2015 have been paid by December 31, 2015.

Payroll Returns (2014-004)

In the prior year, IRS Form 941 payroll returns were not filed for 2014.

Resolution

All IRS Form 941 payroll returns for 2015 have been filed.

Labor Costs for Technical and Administration Time (2014-005)

In the prior year, the District did not appear to have good records for reconciling technical and administrative time allocated to grants.

Resolution

The District now has records to reconcile technical and administrative time allocated to grants.

Retirement Contribution Payment (2014-006)

In the prior year, retirement plan payments were not paid in a timely basis.

Resolution

For 2015, all retirement plan payments were made timely.

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Supervisors
Wabasha Soil and Water Conservation District
Wabasha, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and the General Fund of the Wabasha Soil and Water Conservation District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the Wabasha Soil and Water Conservation District's basic financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 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 listed in the Schedule of Findings and Recommendations as items 2015-001 and 2015-002 to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider the deficiency in the District's internal control, identified as item 2015-003 in the Schedule of Findings and Recommendations, to be a significant deficiency.

Other Matters

The Wabasha Soil and Water Conservation District's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the District's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Board of Supervisors, management, and others within the District, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

January 10, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR



REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Supervisors
Wabasha Soil and Water Conservation District
Wabasha, 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 the General Fund of the Wabasha Soil and Water Conservation District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2017.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the District does not administer any tax increment financing districts.

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

This report is intended solely for the information and use of the Board of Supervisors and management of the Wabasha Soil and Water Conservation District and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 10, 2017