

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA  
FINANCIAL REPORT  
DECEMBER 31, 2022**

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA**

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DECEMBER 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Traverse Soil and Water Conservation District  
Wheaton, Minnesota

### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the accompanying financial statements of the governmental activities and the general fund of Traverse Soil and Water Conservation District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Traverse Soil and Water Conservation District's basic financial statements as listed in the table of contents.

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 Traverse Soil and Water Conservation District, as of December 31, 2022, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Traverse Soil and Water Conservation District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 1 to the financial statements, in 2022, the Traverse Soil and Water Conservation District adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Traverse Soil and Water Conservation District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Traverse Soil and Water Conservation District 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Traverse Soil and Water Conservation District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension contribution and liability information on pages 4–8 and 24-28 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.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Traverse Soil and Water Conservation District's basic financial statements. The Breakdown of County Revenue and Deferred Revenue Breakdown on pages 29 and 30, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Breakdown of County Revenue and Deferred Revenue Breakdown are 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 September 22, 2023, on our consideration of the Traverse Soil and Water Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Traverse Soil and Water Conservation District's internal control over financial reporting and compliance.

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

Johnson & Roggenbuck, P.A.  
Ortonville, Minnesota  
September 22, 2023

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

The Traverse Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2022. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

**Using this Annual Report**

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

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

The analysis of the District as a whole begins on page 5. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

**Reporting the District's General Fund**

**Fund Financial Statements**

The analysis of the District's general fund begins on page 6. The fund financial statements begin on page 9 and provide detailed information about the general fund—not the District as a whole. The District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**THE DISTRICT AS A WHOLE**

The District's net position increased by \$26,972. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

**Table 1  
Net Position**

	<u>Governmental Activities</u>	
	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current and Other Assets	\$ 2,041,388	\$ 1,542,333
Capital Assets, Net of Depreciation	447,428	512,193
Total Assets	<u>2,488,816</u>	<u>2,054,526</u>
Deferred Outflows of Resources	100,032	135,649
Total Assets and Deferred Outflows of Resources	<u>\$ 2,588,848</u>	<u>\$ 2,190,175</u>
<b>Liabilities</b>		
Current Liabilities	\$ 492,587	\$ 341,717
Long-Term Liabilities	363,476	242,704
Total Liabilities	<u>856,063</u>	<u>584,421</u>
Deferred Inflows of Resources	262,889	162,830
Total Liabilities and Deferred Inflows of Resources	<u>1,118,952</u>	<u>747,251</u>
<b>Net Position</b>		
Investment in Capital Assets	447,428	512,193
Unrestricted	1,022,468	930,731
Total Net Position	<u>1,469,896</u>	<u>1,442,924</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 2,588,848</u>	<u>\$ 2,190,175</u>

Net position of the District governmental activities increased by 1.87% (\$1,469,869 compared to \$1,442,924). Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from a \$930,731 surplus at December 31, 2021 to a \$1,022,468 surplus at the end of this year.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**TABLE 2  
Changes in Net Position**

	Governmental Activities	
	2022	2021
Revenues		
Program Revenues:		
Intergovernmental	\$ 642,079	\$ 449,503
Charges for Services	294,002	347,433
General Revenues:		
Lease Income	54,008	55,913
Investment Earnings	10,900	8,513
Miscellaneous	63,015	10,633
Total Revenues	1,064,004	871,995
 Program Expenses		
Conservation	1,037,032	849,141
Total Expenses	1,037,032	849,141
 Increase (Decrease) in Net Position	\$ 26,972	\$ 22,854

The District's total revenues increased by 22.02% (\$192,009). The total cost of all programs and services increased by \$187,891 (22.13%).

**THE DISTRICT'S GENERAL FUND**

As the District completed the year, its general fund (as presented in the balance sheet on page 9) reported a combined fund balance of \$1,308,728, which is above last year's total of \$1,200,616. Included in this year's total change in fund balance, however, is a surplus of \$108,112 in the District's General Fund. The primary reasons for the General Fund's surplus is highlighted below.

**Analysis of 2022 Revenues**

There was no change in the Traverse Soil & Water Conservation District's original and final budget for the year 2022. There were, however, significant increases and decreases in certain revenues and expenditures. The following summarizes each line item with significant variances.

**2022 Revenues**

**County**

In 2022, this budget line item showed a positive variance of \$55,034. That variance can be attributed to an overall increase in the county allocation and other programs.

**Local**

In 2022, the Traverse Soil & Water Conservation District did not budget local revenue due to uncertainty in the availability of programs. The District reported total revenue of \$75,383 from the State of Minnesota for Weed Management Grants and Conservation Reserve Enhancement Program (CREP) and from the Bois de Sioux-Mustinka Comprehensive Watershed Management Plan.

**State Grants**

In 2022, State Grants showed a positive variance of \$142,596. The District received a grant to provide cover crop education and technical assistance to farmers which was not budgeted for. Capacity grant revenue was also higher.



**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**Charges for Services**

In 2022, the Traverse Soil and Water Conservation District had a positive variance of \$91,752 in this budget category. The positive variance is attributed to the efforts of the District's staff in promoting and delivering the District's services.

**2022 Expenditures**

**District Operations**

In 2022, the District had a negative variance of \$28,387 in total district operations. The negative variance is the result of rising costs and higher capital outlays than budgeted. When implementing various programs, staff found a need for additional equipment.

**Project Expenditures – District**

In 2022, the district showed a negative variance of \$107,432 in district project expenditures. The variance is attributed to increased demand for trees and seed which is offset by the positive variance in Charges for Services.

**Project Expenditures – State**

In 2022, the District had a negative variance in the state project expenditures category of \$104,163. This negative variance is due to implementation of the cover crop education and assistance program as well as buffer enforcement, SSTS program, and installation of conservation practices. This is offset by the positive variance in State Grant Revenue.

**CAPITAL ASSETS & LONG-TERM LIABILITIES**

**Capital Assets**

At the end of 2022, the District had \$512,193 invested in capital assets, including buildings, drills, tractors, vehicles, and mowers. (See Table 3 below.) This amount represents a net increase (including additions and deductions) of \$31,084 or 6.46%, over last year.

**Table 3  
Capital Assets at Year-end (Net of Depreciation)**

	Governmental Activities	
	2022	2021
Buildings	\$ 297,710	\$ 313,704
Equipment	149,718	198,489
Totals	<u>\$ 447,428</u>	<u>\$ 512,193</u>

The District purchased equipment totaling \$39,715 in 2022.

**Long-Term Liabilities**

At the end of 2022, the District had \$78,355 in accrued compensated absences and \$285,121 in net pension liability. This compares to \$76,157 in 2021 for accrued compensated absences and \$166,547 for net pension liability.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's elected and appointed officials considered many factors when setting the fiscal-year 2023 budget, tax rates, and fees that will be charged for the products and services. Factors taken into account when planning the 2023 budget include the trend of the grain market, inflation, and new services offered by the District. It is likely that minimal rate increases will occur for products and services in 2023 due to the increase of wholesale prices for products and the inflation of the cost of services, fuel, etc. It is possible that funding for some current state programs will be limited due to budget cuts but it is hard to foresee when planning for a budget.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Manager or Administrative Assistant.

Sara Gronfeld  
District Manager  
sara.gronfeld@mn.nacdnet.net

Trudy Determan  
District Administrative Assistant  
trudy.determan@co.traverse.mn.us

Traverse Soil and Water Conservation District  
304 4<sup>th</sup> Street North  
Wheaton, MN 56296  
Phone: 320-563-8218 ext. 3

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA**

**STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2022**

	<u>General Fund</u>	<u>Adjustments See Notes</u>	<u>Statement of Net Position</u>
<b><u>Assets</u></b>			
Cash and investments	\$ 1,789,927		\$ 1,789,927
Accounts receivable	8,835		8,835
Leases receivable	242,626		242,626
Capital assets:			
Building & equipment, net accumulated depreciation	0	\$ 447,428	447,428
Total Assets	2,041,388		2,488,816
<b>Deferred Outflows of Resources</b>			
Defined benefit pension plan	0	100,032	100,032
<b>Combined Assets and Deferred Outflows of Resources</b>			
	<b>\$ 2,041,388</b>		<b>\$ 2,588,848</b>
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable	\$ 1,946		\$ 1,946
Unearned revenue	490,641		490,641
Long-term liabilities:			
Compensated absences	0	78,355	78,355
Net pension liability	0	285,121	285,121
Total Liabilities	492,587		856,063
<b>Deferred Inflows of Resources</b>			
Deferred lease inflows	240,073		240,073
Defined benefit pension plan	0	22,816	22,816
Total Deferred Inflows of Resources	240,073		262,889
<b>Combined Liabilities and Deferred Inflows of Resources</b>			
	<b>732,660</b>		<b>1,118,952</b>
<b><u>Fund Balance/Net Position</u></b>			
Fund Balance			
Assigned	78,355	(78,355)	0
Unassigned	1,230,373	(1,230,373)	0
<b>Total Fund Balance</b>	<b>1,308,728</b>		<b>0</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 2,041,388</b>		
Net Position			
Investment in capital assets		447,428	447,428
Unrestricted		1,022,468	1,022,468
<b>Total Net Position</b>			<b>1,469,896</b>
<b>Total Liabilities and Net Position</b>			<b>\$ 2,588,848</b>

Notes are an integral part of the basic financial statements.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	General <u>Fund</u>	Adjustments <u>See Notes</u>	Statement of <u>Activities</u>
<b>Revenues</b>			
Intergovernmental	\$ 642,079	\$ 0	\$ 642,079
Charges for services	294,002	0	294,002
Lease income	54,008	0	54,008
Investment earnings	10,900	0	10,900
Miscellaneous	63,015	0	63,015
<b>Total Revenues</b>	<b><u>1,064,004</u></b>	<b><u>0</u></b>	<b><u>1,064,004</u></b>
<b>Expenditures/Expenses</b>			
Conservation			
Current	916,177	120,855	1,037,032
Capital outlay	39,715	(39,715)	0
<b>Total Expenditures/Expenses</b>	<b><u>955,892</u></b>	<b><u>81,140</u></b>	<b><u>1,037,032</u></b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures/Expenses</b>	<b>108,112</b>	<b>(81,140)</b>	<b>26,972</b>
<b>Fund Balance/Net Position January 1</b>	<b><u>1,200,616</u></b>	<b><u>242,308</u></b>	<b><u>1,442,924</u></b>
<b>Fund Balance/Net Position December 31</b>	<b><u>\$ 1,308,728</u></b>	<b><u>\$ 161,168</u></b>	<b><u>\$ 1,469,896</u></b>

Notes are an integral part of the basic financial statements.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA**

**BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Original/Final <u>Budget</u>	Actual	Variance with Final Budget Positive (Neg)
<b>Revenues</b>			
<b>Intergovernmental</b>			
County	\$ 194,545	\$ 249,579	\$ 55,034
Local	0	75,383	75,383
State grant	174,521	317,117	142,596
<b>Total intergovernmental</b>	<b><u>369,066</u></b>	<b><u>642,079</u></b>	<b><u>273,013</u></b>
<b>Charges for services</b>	<b><u>202,250</u></b>	<b><u>294,002</u></b>	<b><u>91,752</u></b>
<b>Miscellaneous</b>			
Lease income	55,913	54,008	(1,905)
Interest earnings	0	10,900	10,900
Other	8,000	63,015	55,015
<b>Total miscellaneous</b>	<b><u>63,913</u></b>	<b><u>127,923</u></b>	<b><u>64,010</u></b>
<b>Total Revenues</b>	<b><u>635,229</u></b>	<b><u>1,064,004</u></b>	<b><u>428,775</u></b>
<b>Expenditures</b>			
<b>District operations</b>			
Personnel services	427,900	422,110	5,790
Other services and charges	59,500	73,962	(14,462)
Capital outlay	20,000	39,715	(19,715)
<b>Total district operations</b>	<b><u>507,400</u></b>	<b><u>535,787</u></b>	<b><u>(28,387)</u></b>
<b>Project expenditures</b>			
District	143,300	250,732	(107,432)
State	65,210	169,373	(104,163)
<b>Total project expenditures</b>	<b><u>208,510</u></b>	<b><u>420,105</u></b>	<b><u>(211,595)</u></b>
<b>Total Expenditures</b>	<b><u>715,910</u></b>	<b><u>955,892</u></b>	<b><u>(239,982)</u></b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>(80,681)</b>	<b>108,112</b>	<b>188,793</b>
<b>Fund Balance - January 1</b>	<b><u>1,200,616</u></b>	<b><u>1,200,616</u></b>	<b><u>0</u></b>
<b>Fund Balance - December 31</b>	<b><u>\$ 1,119,935</u></b>	<b><u>\$ 1,308,728</u></b>	<b><u>\$ 188,793</u></b>

Notes are an integral part of the basic financial statements.

## TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **Financial Reporting Entity**

The District is organized under the provisions of Minnesota Statutes Chapter 103C and is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

The purpose of the District is to assist land occupiers in applying practices for the conservation of soil and water resources. These practices are intended to control wind and water erosion, pollution of lakes and streams, and damage to wetlands and wildlife habitats.

The 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 that is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

The District is not considered a part of Traverse County because, even though the County provides a significant amount of the District's revenue in the form of an appropriation, it does not retain any control over the operations of the District.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units.

#### **Government-Wide Financial Statements**

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

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

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

#### **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.

## TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

Investment earnings and revenue from the sale of trees are recognized when earned. Agricultural conservation fees and other revenues are recognized when they are received in cash because they usually are not measurable until then.

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

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

#### Budget Information

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

#### Use of Estimates

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

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

##### *Assets*

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

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

##### *Liabilities*

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

## TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

#### *Unearned Revenue*

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

#### *Classification of Net Position*

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

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

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

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

#### *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts related to their pension obligations. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. Deferred inflows for leases represent the lease revenue per lease agreement the District expects to recognize in future periods, amortized to revenue on a straight-line basis over the lease term. These amounts arise under both the modified and the full accrual basis of accounting and are reported in both the governmental funds balance sheet and the statement of net position. The District also reports deferred inflows of resources associated with defined benefit pension plans. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

#### Classifications of Fund Balances

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

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

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



## TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

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

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

#### Explanation of Adjustments Column in Statements

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

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

**Depreciation and Change in Compensated Absences and Net Pension Expense for the year:** In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year and the change in Pension Expense. This number is supported by figures in Capital Assets and Long-Term Liabilities in Note 2 and Pension Expense, Net in Note 7.

#### Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 10 to 20 hours per month. Sick leave accrual is 120 hours per year. The limit on the accumulation of annual leave is 300 hours and the limit on sick leave is 900 hours. Employees who retire or whose employment is terminated are paid accrued vacation and one-half of accrued sick leave not to exceed 450 hours.

#### Pension Plan

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

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

Risk Management

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

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

Change in Accounting Principle

During the year ended December 31, 2022, the District adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) No. 87, *Leases*, which establishes criteria for accounting and financial reporting for leases. The implementation of this statement resulted in changing the presentation of the financial statements by increasing the beginning balances of the leases receivable and deferred inflows by \$294,081.

**NOTE 2 – DETAILED NOTES**

Capital Assets

The changes in capital assets and depreciation are listed below.

	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2022
Capital Assets				
Buildings	\$ 479,785	\$ 0	\$ 0	\$ 479,785
Equipment	681,058	39,715	57,861	662,912
Total Capital Assets	1,160,843	39,715	57,861	1,142,697
Less: Accumulated Depreciation				
Buildings	166,082	15,993	0	182,075
Equipment	482,568	88,487	57,861	513,194
Total Accumulated Depreciation	648,650	104,480	57,861	695,269
Total Net Capital Assets	\$ 512,193	\$ (64,765)	\$ 0	\$ 447,428

The District uses a threshold of \$3,000 for capitalizing assets purchased.

The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method. The useful lives for the purpose of computing depreciation is three to seven years for equipment and thirty years for buildings. Current year depreciation is \$104,480.

TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022

Unearned Revenue

Unearned Revenue represents advances from the Minnesota Board of Water and Soil Resources and Traverse County for various programs. Revenues will be recognized when the related program expenditures are recorded.

Total Unearned Revenue as itemized on “Unearned Revenue Breakdown” is \$490,641.

Long-Term Liabilities – Compensated Absences Payable

Changes in compensated absences for the period ended December 31, 2022 are:

Balance January 1, 2022	\$	76,157
Additions		41,905
Deletions		<u>(39,707)</u>
Balance December 31, 2022	\$	<u>78,355</u>

Long-Term Liabilities – Net Pension Liability

Changes in net pension liability for the period ended December 31, 2022 are:

Balance January 1, 2022	\$	166,547
Additions		151,628
Deletions		<u>(33,054)</u>
Balance December 31, 2022	\$	<u>285,121</u>

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least 10% more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

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

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District had deposits of \$386,742 that exceeded federal deposit insurance but were fully collateralized by securities held by the depository’s agent at December 31, 2022. As of December 31, 2022, the District’s deposits were not exposed to custodial credit risk.

TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022

Leases

The District has entered into a lease agreement as a lessor and as of December 31, 2022, there is one active lease receivable agreement for a building. Fixed monthly lease receipts range from \$4,659 to \$4,915 and extend to periods ending December 31, 2027. The discount rate applicable to this lease is 6.25%. During the year ended December 31, 2022, the District recognized the following related to its lessor agreement:

**Lease Revenue for December 31, 2022**

Lease revenue	\$	54,008
Interest income related to its leases		<u>4,458</u>
Total	\$	<u>58,466</u>

**NOTE 3 – DEFINED BENEFIT PENSION PLAN**

Plan Description

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

General Employees Retirement Plan

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

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

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

TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2022 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended December 31, 2022, were \$22,554. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2022, the District reported a liability of \$285,121 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$8,346. The net pension liability was measured as of June 30, 2022, 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, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The District's proportion share was .0036% at the end of the measurement period and .0039% for the beginning of the period.

District's proportionate share of net pension liability	\$ 285,121
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>8,346</u>
Total	<u>\$ 293,467</u>

For the year ended December 31, 2022, the District recognized a increase to pension expense of \$14,177 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$1,247 as pension expenses (and grant revenue) for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

At December 31, 2022, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,382	\$ 3,262
Changes in actuarial assumptions	69,743	1,095
Net collective difference between projected and actual investment earnings	0	4,703
Changes in proportion	14,989	13,756
Contributions paid to PERA subsequent to the measurement date	12,919	0
Total	\$ 100,033	\$ 22,816

The \$12,919 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. 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
2023	\$ 24,330
2024	29,499
2025	(15,315)
2026	25,784
Total	\$ 64,298

Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100.0%	

## TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

#### Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

#### General Employees Fund

##### Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

##### Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

#### Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

Pension Liability Sensitivity

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

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	General Employees Fund	
	Percent	Amount
1% Lower	5.50%	\$ 450,364
Current Discount Rate	6.50%	285,121
1% Higher	7.50%	149,597

Pension Plan Fiduciary Net Position

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

**NOTE 4 – PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN**

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.25%) of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2022 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$247	\$247	5%	5%	5%



TRAVERSE SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2022

**NOTE 5 - RECONCILIATION OF FUND BALANCE TO NET POSITION**

Governmental Fund Balance, January 1	\$	1200,616
Less: Excess of Expenditures Over Revenue		<u>108,112</u>
Governmental Fund Balance, December 31		1,308,728
Adjustments from Fund Balance to Net Position:		
Plus: Capital Assets		447,428
Plus: Deferred Outflows of Resources		100,032
Less: Long-Term Liabilities		(363,476)
Less: Deferred Inflows of Resources		<u>(22,816)</u>
Net Position	\$	<u>1,469,896</u>

**NOTE 6 - RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION**

Change in Fund Balance	\$	108,112
Capital outlay		39,715
Pension Expense, net		(14,177)
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level.		(104,480)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.		<u>(2,198)</u>
Change in Net Position	\$	<u>26,972</u>

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA**

**SCHEDULE OF CONTRIBUTIONS  
GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2022**

Fiscal Year Ending	Statorily Required Contributions (a)	Contributions in Relation to the Statorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2022	\$ 22,554	\$ 22,554	\$ 0	\$ 300,723	7.50%
2021	\$ 20,749	\$ 20,749	\$ 0	\$ 276,657	7.50%
2020	\$ 18,794	\$ 18,794	\$ 0	\$ 250,583	7.50%
2019	\$ 18,793	\$ 18,793	\$ 0	\$ 250,577	7.50%
2018	\$ 19,128	\$ 19,128	\$ 0	\$ 255,037	7.50%
2017	\$ 18,807	\$ 18,807	\$ 0	\$ 250,763	7.50%
2016	\$ 16,537	\$ 16,537	\$ 0	\$ 220,497	7.50%
2015	\$ 12,456	\$ 12,456	\$ 0	\$ 166,086	7.50%

\* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined June 30 of the previous year.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2022**

Fiscal Year Ending	Employer's Proportionate Share (percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Employer (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With Employer (a+b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.0036%	\$ 285,121	\$ 8,346	\$ 293,467	\$ 300,723	97.59%	76.70%
2021	0.0039%	\$ 166,547	\$ 5,062	\$ 171,609	\$ 276,657	62.03%	87.00%
2020	0.0034%	\$ 203,846	\$ 6,277	\$ 210,123	\$ 250,583	83.85%	79.10%
2019	0.0037%	\$ 204,565	\$ 6,333	\$ 210,898	\$ 250,577	84.16%	80.20%
2018	0.0037%	\$ 205,261	\$ 6,871	\$ 212,132	\$ 255,037	83.18%	79.50%
2017	0.0037%	\$ 236,206	\$ 3,005	\$ 239,211	\$ 250,763	95.39%	75.90%
2016	0.0030%	\$ 243,585	\$ 3,245	\$ 246,830	\$ 220,497	111.94%	68.90%
2015	0.0028%	\$ 145,111	\$ 0	\$ 145,111	\$ 166,086	87.37%	78.19%

\* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined June 30 of the previous year.

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

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2022**

**NOTE 1 – CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ACTUARIAL ASSUMPTIONS**

2022 Changes

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

2021 Changes

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2022**

2019 Changes

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2017 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2022**

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA

BREAKDOWN OF COUNTY REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2022

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$	80,000
WATER PLAN MONEY		30,362
WETLAND MONEY		12,390
FEEDLOT MONEY		15,000
SSTS/SSTS GRANT		76,466
CAPACITY COUNTY MATCH		22,750
BUFFER ENFORCEMENT		<u>12,611</u>
<b>TOTAL</b>	<b>\$</b>	<b><u><u>249,579</u></u></b>

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA**

**UNEARNED REVENUE BREAKDOWN  
DECEMBER 31, 2022**

Balance of BWSR Service Grants:	\$	0
Balance of <u>unencumbered</u> BWSR Cost-Share Grants:	Current fiscal year	5,376
	Previous fiscal year	3,230

Balance of encumbered BWSR Cost-Share Grant:

FY	Contract No.	Contract Amount	T&A Encumbered

Total of all Cost-Share Encumbrances 0

Balance of County WCA Funds: 9,779

Balance of County Water Plan Funds: 31,310

Balance of other funds being deferred:

SSTS/SSTS Grant	\$	81,360
Buffer		70,552
Capacity		223,879
RIM		1,134
Buffer Enforcement		28,086
Cover Crop		21,760
Soil Health		14,175

Subtotal of other funds: 440,946

**TOTAL OF ALL UNEARNED REVENUE:** **\$ 490,641**



**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA  
BOARD OF SUPERVISORS  
DECEMBER 31, 2022**

**Supervisors**

Chester Raguse	Chairman
Doug Frisch	Vice-Chairman
Dennis Zimbrick	Secretary
Greg Hoppe	Treasurer
David Rinke	Public Relations

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

To the Board of Supervisors  
Traverse Soil and Water Conservation District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the Traverse Soil and Water Conservation District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Traverse Soil and Water Conservation District's basic financial statements and have issued our report thereon dated September 22, 2023.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Traverse Soil and Water Conservation District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Traverse Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Traverse Soil and Water Conservation District's internal control.

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses, items 2022-01, to be a material weakness.

*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. We consider the deficiency described in the accompanying schedule of findings and responses, item 2022-02, to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Traverse 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*.

### **Traverse Soil and Water Conservation District's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Johnson & Roggenbuck, P.A.  
Ortonville, Minnesota  
September 22, 2023

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2022**

**MATERIAL WEAKNESS**

2022-01      FINANCIAL STATEMENT PREPARATION

**Criteria:** Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with the generally accepted accounting principles.

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

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

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

**Recommendation:** We acknowledge the fact that the auditor's expertise was utilized for preparing financial statements as the result of cost-benefit assessment by the District. In addition, it should be noted that the financial statements were reviewed for overall appropriateness by management subsequent to auditor preparation.

Should the District elect to establish the "full oversight" of the financial statement preparation, we suggest management establish effective review policies and procedures, including but not limited to, the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

**Response:** Due to cost constraints, the District will continue to have the auditors draft the financial statements and accompanying notes.

**SIGNIFICANT DEFICIENCY**

2022-02      LACK OF SEGREGATION OF DUTIES

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

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

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

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

**TRAVERSE SOIL AND WATER CONSERVATION DISTRICT  
WHEATON, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2022**

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

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

# Johnson & Roggenbuck, P.A.

Certified Public Accountants

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## MINNESOTA LEGAL COMPLIANCE

### Independent Auditor's Report

To the Board of Supervisors  
Traverse Soil and Water Conservation District

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities and the general fund of Traverse Soil and Water Conservation District as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Traverse Soil and Water Conservation District's basic financial statements, and have issued our report thereon dated September 22, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that Traverse Soil and Water Conservation District failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the Minnesota Legal Compliance Audit Guide for Other Political Subdivisions, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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 Traverse Soil and Water Conservation District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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



Johnson & Roggenbuck, P.A.  
Ortonville, Minnesota  
September 22, 2023