

**AREA III SWCD TECHNICAL
SERVICE AREA**

FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Area III SWCD Technical Service Area
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Area III SWCD Technical Service Area, Duluth, Minnesota, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the TSA'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity'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 entity'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 Area III SWCD Technical Service Area as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2015, on our consideration of the Area III SWCD Technical Service Area'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 Area III SWCD Technical Service Area's internal control over financial reporting and compliance.

Peterson Company Ltd

PETERSON COMPANY, LTD.
Certified Public Accountants
Waconia, Minnesota

July 29, 2015

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AREA III SWCD TECHNICAL SERVICE AREA
JUNE 30, 2014**

The Area III SWCD Technical Service Area's discussion and analysis provides an overview of the TSA's financial activities for the fiscal year ended June 30, 2014. 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 TSA as a whole and present a longer-term view of the TSA'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 TSA's operations in more detail than the government-wide statements by providing information about the TSA's most significant funds. Since TSAs are joint powers entities created by single-purpose, special-purpose governments (SWCD's) they are generally able to combine the government-wide and fund financial statements into a single presentation.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the TSA's finances is, "Is the TSA 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 TSA as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the TSA's net position and changes in them. You can think of the TSA's net position — the difference between assets and liabilities — as one way to measure the TSA's financial health, or financial position. Over time, increases or decreases in the TSA'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 TSA presents governmental activities. All of the TSA's basic services are reported here. Appropriations from the state and local sources finance most activities.

Reporting the TSA's General Fund

The fund financial statements provide detailed information about the general fund—not the TSA as a whole. The TSA presents only a general fund, which is a governmental fund. All of the TSA's basic services are reported in the general fund, which focuses on how money flows into and out of the fund and the balances left at year-end that are available for spending. 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 TSA'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 TSA'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.

THE TSA AS A WHOLE

The TSA's combined net position increased at the end of 2014 to \$301,600 compared to \$279,494 at the end of 2013. Our analysis focuses on the net position (Table 1) and change in net position (Table 2) of the TSA's governmental activities.

Table 1
Net Position:

	Governmental Activities	
	2014	2013
Current Assets	\$ 215,448	\$ 211,892
Capital Assets, net of depreciation	103,680	78,810
Total Assets	\$ 319,128	\$ 290,702
Current Liabilities	\$ 7,652	\$ 4,151
Long-Term Liabilities	9,876	7,057
Total Liabilities	\$ 17,528	\$ 11,208
Investment in Capital Assets	\$ 103,680	\$ 78,810
Unrestricted	197,920	200,684
Total Net Position	\$ 301,600	\$ 279,494

Net position of the TSA's governmental activities increased by \$22,106. This increase is primarily due to increased capital assets. 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 \$200,684 at June 30, 2013 to \$197,920 at the end of this year.

Table 2
Change in Net Position:

	Governmental Activities	
<u>Revenues</u>	<u>2014</u>	<u>2013</u>
Intergovernmental	\$ 394,827	\$ 329,520
Charges for Services	-	1,200
Investment Earnings	114	222
Miscellaneous	3,140	5,412
Total Revenues	<u>\$ 398,081</u>	<u>\$ 336,354</u>
<u>Expenditures</u>		
Conservation	\$ 375,975	\$ 287,629
Total Expenditures	<u>\$ 375,975</u>	<u>\$ 287,629</u>
Increase (decrease) in Net Position	<u>\$ 22,106</u>	<u>\$ 48,725</u>

The TSA's total revenues increased by \$61,727. The total cost of programs and services increased by \$88,346. The increase was due to staff additions and significant outlay for capital assets.

Governmental Activities

The cost of all governmental activities this year was \$375,975 compared to \$287,629 last year. The TSA does not collect any tax revenue directly from tax payers. However, taxpayers ultimately financed most of these activities through taxes collected by other agencies.

THE TSA'S FUNDS

As the TSA completed the year, its general fund as presented in the balance sheet reported a combined fund balance of \$207,796, which is above last year's total of \$207,741.

CAPITAL ASSETS & LONG-TERM LIABILITIES

Capital Assets

At the end of 2014, the TSA had \$103,680 invested in capital assets, including vehicles, computers, furniture and other equipment. This amount represents a net increase (including additions and deductions) of \$24,870 from last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Area III SWCD Technical Service Area's elected and appointed officials considered many factors when setting the fiscal-year 2015 budget. The budget is set primarily by analyzing anticipated revenues and required expenditures to complete TSA projects and goals.

CONTACTING THE TSA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers with a general overview of the TSA's finances and to show the TSA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the TSA at 215 North 1st Ave East, Room 301, Duluth, MN 55802. The phone number is 218-723-4867.

**AREA III SWCD TECHNICAL SERVICE AREA
DULUTH, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2014**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>Assets</u>			
Cash and Investments	\$ 147,500	\$ -	\$ 147,500
Due from Other Governments	64,890	-	64,890
Prepaid Items	3,058	-	3,058
Capital Assets:			
Equipment (net of accumulated depreciation)	-	103,680	103,680
Total Assets	<u>\$ 215,448</u>	<u>\$ 103,680</u>	<u>\$ 319,128</u>
<u>Liabilities</u>			
Current Liabilities:			
Accrued Wages	\$ 6,660	\$ -	\$ 6,660
Due to Other Governments	992	-	992
Long-term Liabilities:			
Due after one year	-	9,876	9,876
Total Liabilities	<u>\$ 7,652</u>	<u>\$ 9,876</u>	<u>\$ 17,528</u>
<u>Fund Balance/Net Position</u>			
Fund Balance			
Nonspendable - Prepays	\$ 3,058	\$ (3,058)	\$ -
Unassigned	204,738	(204,738)	-
Total Fund Balance	<u>\$ 207,796</u>	<u>\$ (207,796)</u>	<u>\$ -</u>
Net Position			
Investments in Capital Assets		\$ 103,680	\$ 103,680
Unrestricted		197,920	197,920
Total Net Position		<u>\$ 301,600</u>	<u>\$ 301,600</u>

Notes are an integral part of the basic financial statements.

**AREA III SWCD TECHNICAL SERVICE AREA
DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 394,827	\$ -	\$ 394,827
Investment Earnings	114	-	114
Miscellaneous	3,140	-	3,140
Total Revenues	<u>\$ 398,081</u>	<u>\$ -</u>	<u>\$ 398,081</u>
Expenditures/Expenses			
Conservation			
Current	\$ 351,054	\$ 24,921	\$ 375,975
Capital Outlay	46,972	(46,972)	-
Total Expenditures/Expenses	<u>\$ 398,026</u>	<u>\$ (22,051)</u>	<u>\$ 375,975</u>
Excess of Revenues Over (Under) Expenditures/Expenses	<u>\$ 55</u>	<u>\$ 22,051</u>	<u>\$ 22,106</u>
Fund Balance/Net Position July 1	<u>\$ 207,741</u>	<u>\$ 71,753</u>	<u>\$ 279,494</u>
Fund Balance/Net Position June 30	<u><u>\$ 207,796</u></u>	<u><u>\$ 93,804</u></u>	<u><u>\$ 301,600</u></u>

Notes are an integral part of the basic financial statements.

**AREA III SWCD TECHNICAL SERVICE AREA
DULUTH, MINNESOTA
BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
Revenues			
Intergovernmental			
Local	\$ 223,150	\$ 238,843	\$ 15,693
State Grant	130,000	155,984	25,984
Total Intergovernmental	<u>\$ 353,150</u>	<u>\$ 394,827</u>	<u>\$ 41,677</u>
Miscellaneous			
Interest Earnings	\$ 200	\$ 114	\$ (86)
Other	100	3,140	3,040
Total Miscellaneous	<u>\$ 300</u>	<u>\$ 3,254</u>	<u>\$ 2,954</u>
 Total Revenues	 <u>\$ 353,450</u>	 <u>\$ 398,081</u>	 <u>\$ 44,631</u>
Expenditures			
District Operations			
Personnel Services	\$ 290,197	\$ 298,254	\$ (8,057)
Other Services and Charges	46,253	47,395	(1,142)
Supplies	2,000	5,405	(3,405)
Capital Outlay	15,000	46,972	(31,972)
Total District Operations	<u>\$ 353,450</u>	<u>\$ 398,026</u>	<u>\$ (44,576)</u>
 Total Expenditures	 <u>\$ 353,450</u>	 <u>\$ 398,026</u>	 <u>\$ (44,576)</u>
 Excess of Revenues Over (Under) Expenditures	 <u>\$ -</u>	 <u>\$ 55</u>	 <u>\$ 55</u>
 Fund Balance - July 1	 <u>\$ 207,741</u>	 <u>\$ 207,741</u>	 <u>\$ -</u>
 Fund Balance - June 30	 <u><u>\$ 207,741</u></u>	 <u><u>\$ 207,796</u></u>	 <u><u>\$ 55</u></u>

Notes are an integral part of the basic financial statements.

**AREA III SWCD TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies

The financial reporting policies of the Area III SWCD Technical Service Area 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 (statements and interpretations).

Financial Reporting Entity

The Area III SWCD Technical Service Area is organized under the provisions of Minnesota Statutes Chapters 103C and 457 and is governed by a Board of Supervisors composed of nine members selected by member SWCD's and that are elected to four-year terms by the voters of the County of their member SWCD.

The purpose of the TSA is to assist member SWCD's and 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 Area III SWCD Technical Service Area and Soil and Water Conservation Districts, in cooperation with the U.S. Department of Agriculture Natural Resources Conservation Service and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution and improper land use.

Each fiscal year the TSA 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 TSA's objectives.

The TSA is not considered a part of any county or SWCD because, even though some SWCD's may provide some amount of the TSA's revenues in the form of appropriations, they do not retain any control over the operations of the TSA.

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 TSA 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 of the nonfiduciary activities of the TSA.

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

**AREA III SWCD TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

cash flows. Grants and similar items are recognized as revenues 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.

The TSA's financial statements (general fund) are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual that is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue sources susceptible to accruals include intergovernmental revenues, charges, and interest. Expenditures are recorded when the corresponding liabilities are incurred.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred.

Investment earnings and other revenues are recognized when earned.

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 TSA 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 TSA does not use encumbrance accounting.

Use of Estimates

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

Assets, Liabilities and Equity Accounts

The TSA follows Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

**AREA III SWCD TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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 are 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, are accounted for as an adjustment to net position.

Classification of Net Position

Net position in the government-wide financial statements are 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.

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

Classification of Fund Balances

The TSA follows Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*.

Fund balance is divided into five classifications based primarily on the extent to which the TSA is bound to observe constraints imposed upon the use of the resources in the governmental funds. 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 legally or contractually are 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 TSA Board. Those committed amounts cannot be used for any other purpose unless the

**AREA III SWCD TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Board 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 the TSA 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 Board or the TSA Administrator who has been delegated that authority by Board resolution.

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 TSA 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 TSA 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 Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absence Liability the TSA has as of the report date. See note on Long-Term Liabilities.

Depreciation and Change in Compensated Absences 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. This number is supported by figures in the note on Long-Term Liabilities.

**AREA III SWCD TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Vacation and Sick Leave

Under the TSA's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 4 to 8 hours per pay period. Sick leave accrual is 4 hours per pay period. The limit on the accumulation of annual leave is 240 hours and there is no limit on sick leave. Upon termination of employment from the TSA, employees are paid accrued vacation leave and up to 80 hours of accrued sick leave.

Risk Management

The TSA 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 TSA 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 TSA pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 2 - Detailed Notes

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	<u>Beginning</u>	<u>Addition</u>	<u>Deletion</u>	<u>Ending</u>
Equipment	\$128,836	\$46,972	\$5,602	\$170,206
Less: Accumulated Depreciation	<u>50,026</u>	22,102	5,602	<u>66,526</u>
Net Capital Assets	<u>\$ 78,810</u>			<u>\$103,680</u>

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation is 5 to 10 years for Machinery and Equipment. Current year depreciation is \$22,102.

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

Long-Term Liabilities - Compensated Absences Payable

Changes in long-term liabilities for the period ended June 30, 2014 are:

Balance July 1, 2013	\$7,057
Net Change in Compensated Absences	<u>2,819</u>
Balance June 30, 2014	<u>\$9,876</u>

**AREA III SWCD TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the TSA to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 118A.03 requires that all TSA deposits be protected by insurance, surety bond, or collateral. When not covered by insurance or surety bonds, 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.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better or 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 TSA's deposits may not be returned to it. The TSA does not have a deposit policy for custodial credit risk. As of June 30, 2014, the TSA's deposits were not exposed to custodial credit risk.

Note 3 - Defined Benefit Pension Plans – Statewide

Plan Description - Public Employees Retirement Association

The TSA contributes to a cost-sharing multiple-employer defined pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. The plan and its benefits are established and administered in accordance with Minnesota Statutes Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-1855.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The TSA makes annual contributions to the pension plans equal to the amount required by state statutes. Coordinated Plan Members were required to contribute 6.25% of their annual covered salary. The TSA is required to contribute 7.25% of annual covered payroll. The TSA's contributions to the Public Employees Retirement Fund for the years ending June 30, 2014, 2013 and 2012 were \$16,547, \$13,253, and \$15,697 respectively. The TSA's contributions were equal to the contractually required contributions for each year as set by Minnesota Statutes.

**AREA III SWCD TECHNICAL SERVICE AREA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 4 - Operating Leases

The TSA leases office space on a yearly basis from the South St. Louis SWCD for the Duluth Office, and from Lyle Katterhagen for the Mora Office. Under the current agreement total costs for 2014 were \$11,409.

Note 5 - Stewardship, Compliance and Accountability

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$398,026; Budget \$353,450; Excess \$44,576.

Note 6 - Reconciliation of Fund Balance to Net Position

Governmental Fund Balance, July 1	\$207,741
Plus: Excess of Revenue Over Expenditures	<u>55</u>
Governmental Fund Balance, June 30	<u>\$207,796</u>
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	\$103,680
Less: Long-Term Liabilities	<u>(9,876)</u>
Net Position	<u>\$301,600</u>

Note 7 - Reconciliation of Change in Fund Balance to Change in Net Position

Change in fund balance	\$ 55
Capital Outlay	46,972
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level.	(22,102)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.	<u>(2,819)</u>
Net change in net position	<u>\$22,106</u>

MINNESOTA LEGAL COMPLIANCE REPORT

Board of Supervisors
Area III SWCD Technical Service Area
Duluth, Minnesota

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 Area III SWCD Technical Service Area of Duluth, Minnesota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated July 29, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the TSA is not allowed to issue debt.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

July 29, 2015

**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**

Board of Supervisors
Area III SWCD Technical Service Area
Duluth, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* (issued by the Comptroller General of the United States), the financial statements of the governmental activities of Area III SWCD Technical Service Area, Duluth, Minnesota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Area III SWCD Technical Service Area's basic financial statements, and have issued our report thereon dated July 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Area III SWCD Technical Service Area's internal control over financial reporting 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 Area III SWCD Technical Service Area's internal control. Accordingly, we do not express an opinion on the effectiveness of Area III SWCD Technical Service Area's internal control.

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 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Area III SWCD Technical Service Area's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Peterson Company Ltd

PETERSON COMPANY LTD.
Certified Public Accountants
Waconia, Minnesota

July 29, 2015