

FINANCIAL AUDIT REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2014



*Pipestone Soil and Water Conservation District*

119 2<sup>nd</sup> Avenue SW – Suite 13

Pipestone, MN 56164

*The mission of the Pipestone Soil and Water Conservation District is to promote conservation of natural resources through Education, Technical Assistance, and Stewardship.*



**Kinner & Company Ltd**  
Certified Public Accountants

Taxes, QuickBooks & Investments

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
BOARD OF SUPERVISORS  
DECEMBER 31, 2014**

| <u>Board of Supervisors</u> | <u>Position</u>                |
|-----------------------------|--------------------------------|
| Calvin Spronk               | Chairperson                    |
| Arvin Pater                 | Vice-Chairperson               |
| Bill Folger                 | Secretary/Treasurer            |
| Anna Mae Fritz              | Programs                       |
| Ian Cunningham              | Public Relations & Information |

District Manager

Kyle Krier

## 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 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pipestone Soil and Water Conservation District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2015, on our consideration of the Pipestone 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 the 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 the Pipestone Soil and Water Conservation District's internal control over financial reporting and compliance.



Kinner & Company Ltd  
Certified Public Accountants

August 21, 2015

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**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014**

**Reporting the SWCD's General Fund**

**Fund Financial Statements**

The analysis of the SWCD's general fund begins on page 5. The fund financial statements begin on page 9 and provide detailed information about the general fund—not the SWCD as a whole. The SWCD presents only a general fund, which is a governmental fund. All of the SWCD'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 SWCD'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 SWCD's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation included with the financial statements.

**THE SWCD AS A WHOLE**

The SWCD's combined net position decreased \$52,892 from \$557,590 to \$504,698. In contrast, last year net position decreased by \$37,963. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the SWCD's governmental activities.

**Table 1  
Net Position**

|                                  | Governmental<br>Activities |                  |
|----------------------------------|----------------------------|------------------|
|                                  | (Unaudited)                |                  |
|                                  | <u>2014</u>                | <u>2013</u>      |
| Current and other assets         | \$577,738                  | \$592,209        |
| Capital assets                   | <u>135,207</u>             | <u>124,453</u>   |
| Total assets                     | \$712,945                  | \$716,662        |
| Current liabilities              | \$201,553                  | \$156,552        |
| Long-term liabilities            | <u>6,694</u>               | <u>2,520</u>     |
| Total liabilities                | \$208,247                  | \$159,072        |
| Net Position                     |                            |                  |
| Net investment in capital assets | \$135,207                  | \$124,453        |
| Unrestricted                     | <u>369,491</u>             | <u>433,137</u>   |
| Total net position               | <u>\$504,698</u>           | <u>\$557,590</u> |

Net position of the SWCD governmental activities decreased by 9.5 percent (\$504,698 compared to \$557,590). 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 \$433,137 surplus at December 31, 2013, to a \$369,491 surplus at December 31, 2014.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014**

Table 3 presents the cost of each of the SWCDs five largest programs as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the SWCD's taxpayers by each of these functions.

**Table 3  
Governmental Activities**

|               | Total Cost<br>of Services |                         | Net Cost<br>of Services |                        |
|---------------|---------------------------|-------------------------|-------------------------|------------------------|
|               | 2014                      | 2013                    | 2014                    | 2013                   |
| Conservation  | <u>\$361,357</u>          | <u>\$328,442</u>        | <u>\$80,994</u>         | <u>\$44,546</u>        |
| <b>Totals</b> | <b><u>\$361,357</u></b>   | <b><u>\$328,442</u></b> | <b><u>\$80,994</u></b>  | <b><u>\$44,546</u></b> |

**THE SWCD's FUNDS**

As the SWCD completed the year, its general fund (as presented in the balance sheet on page 9 reported a combined fund balance of \$376,185, which is below last year's total of \$435,657. Included in this year's total change in fund balance, however, is a deficit of \$80,994 in the SWCD's General Fund. The primary reasons for the General Fund's surplus mirror the governmental activities analysis highlighted on pages 6.

**General Fund Budgetary Highlights**

Over the course of the year, the governing board revised the SWCD's budget once. This revision was made to reflect known changes in revenues from state and county sources and related changes in expenditures.

The actual charges to appropriations (expenditures) were \$97,473 above the final budget amounts. There were no positive variances.

On the other hand, resources available for appropriation were \$78,001 above the final budgeted amount. Appropriations from the county were equal to expected. Increases in state funding also affected grant resources available for appropriation.

**CAPITAL ASSET AND LONG TERM LIABILITIES**

**Capital Assets**

At the end of 2014, the SWCD had \$135,207 invested in a broad range of capital assets (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$10,754, or 8.6 percent, over last year.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT

STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
FOR THE YEAR ENDED DECEMBER 31, 2014

|   | General<br>Fund  | Adjustments<br>(See Notes) | Statement of<br>Net Position |
|---|------------------|----------------------------|------------------------------|
| <b><u>Assets</u></b>                          |                  |                            |                              |
| Cash and cash equivalents                     | \$568,980        |                            | \$568,980                    |
| Inventory                                     | 4,398            |                            | 4,398                        |
| Due from other Government                     | 4,360            |                            | 4,360                        |
| Capital Assets:                               |                  |                            |                              |
| Depreciable (net of accumulated depreciation) |                  | 135,207                    | 135,207                      |
| <b>Total Assets</b>                           | <b>\$577,738</b> | <b>\$135,207</b>           | <b>\$712,945</b>             |
| <b><u>Liabilities</u></b>                     |                  |                            |                              |
| Current liabilities:                          |                  |                            |                              |
| Accounts payable                              | \$3,039          |                            | \$3,039                      |
| Taxes payable                                 | 3,857            |                            | 3,857                        |
| Unearned revenue                              | 194,657          |                            | 194,657                      |
| Long-term liabilities:                        |                  |                            | 0                            |
| Due after one year - Compensated Absences     |                  | 6,694                      | 6,694                        |
| <b>Total Liabilities</b>                      | <b>\$201,553</b> | <b>\$6,694</b>             | <b>\$208,247</b>             |
| <b><u>Fund Balance/Net Position</u></b>       |                  |                            |                              |
| Fund Balance                                  |                  |                            |                              |
| Nonspendable                                  | \$4,398          | (\$4,398)                  | \$0                          |
| Unrestricted                                  |                  |                            |                              |
| Committed                                     | 350,000          | (350,000)                  | 0                            |
| Unassigned                                    | 21,787           | (21,787)                   | 0                            |
| <b>Total Fund Balance</b>                     | <b>\$376,185</b> | <b>(\$376,185)</b>         | <b>\$0</b>                   |
| Net Position                                  |                  |                            |                              |
| Net investment in capital assets              |                  | \$135,207                  | \$135,207                    |
| Unrestricted                                  |                  | 369,491                    | 369,491                      |
| <b>Total Net Position</b>                     |                  | <b>\$504,698</b>           | <b>\$504,698</b>             |

Notes are an integral part of the basic financial statements.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT

BUDGETARY COMPARISON STATEMENT  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 YEAR ENDED DECEMBER 31, 2014

|                                   | Original<br>Budget | Final<br>Budget   | Actual            | Variance with<br>Final Budget<br>Over (Under) |
|-----------------------------------|--------------------|-------------------|-------------------|---|
| <b>Revenues</b>                   |                    |                   |                   |   |
| <b>Intergovernmental</b>          |                    |                   |                   |   |
| County                            | \$70,000           | \$50,000          | \$50,000          | \$0   |
| State grant                       | 141,596            | 161,273           | 195,627           | 34,354  |
| <b>Total intergovernmental</b>    | <b>\$211,596</b>   | <b>\$211,273</b>  | <b>\$245,627</b>  | <b>\$34,354</b>                               |
| <b>Charges for services</b>       | <b>\$40,000</b>    | <b>\$10,000</b>   | <b>\$34,736</b>   | <b>\$24,736</b>                               |
| <b>Miscellaneous</b>              |                    |                   |                   |   |
| Interest earnings                 | \$2,000            | \$2,611           | \$1,711           | (\$900)                                       |
| Other                             | 0                  | 0                 | 19,811            | 19,811  |
| <b>Total miscellaneous</b>        | <b>\$2,000</b>     | <b>\$2,611</b>    | <b>\$21,522</b>   | <b>\$18,911</b>                               |
| <b>Total Revenues</b>             | <b>\$253,596</b>   | <b>\$223,884</b>  | <b>\$301,885</b>  | <b>\$78,001</b>                               |
| <b>Expenditures</b>               |                    |                   |                   |   |
| <b>District operations</b>        |                    |                   |                   |   |
| Personnel services                | \$147,633          | \$146,893         | \$153,886         | (\$6,993)                                     |
| Other services and charges        | 73,503             | 59,313            | 70,411            | (11,098)                                      |
| Supplies                          | 3,000              | 2,000             | 2,378             | (378)   |
| Capital outlay                    | 0                  | 10,000            | 30,045            | (20,045)                                      |
| <b>Total district operations</b>  | <b>\$224,136</b>   | <b>\$218,206</b>  | <b>\$256,720</b>  | <b>(\$38,514)</b>                             |
| <b>Project expenditures</b>       |                    |                   |                   |   |
| District                          | \$12,952           | \$19,344          | \$42,938          | (\$23,594)                                    |
| State                             | 16,508             | 26,334            | 61,699            | (35,365)                                      |
| <b>Total project expenditures</b> | <b>\$29,460</b>    | <b>\$45,678</b>   | <b>\$104,637</b>  | <b>(\$58,959)</b>                             |
| <b>Total Expenditures</b>         | <b>\$253,596</b>   | <b>\$263,884</b>  | <b>\$361,357</b>  | <b>(\$97,473)</b>                             |
| <b>Net Change in Fund Balance</b> | <b>\$0</b>         | <b>(\$40,000)</b> | <b>(\$59,472)</b> | <b>(\$19,472)</b>                             |
| <b>Fund Balance - January 1</b>   | <b>\$435,657</b>   | <b>\$435,657</b>  | <b>\$435,657</b>  | <b>\$0</b>                                    |
| <b>Fund Balance - December 31</b> | <b>\$435,657</b>   | <b>\$395,657</b>  | <b>\$376,185</b>  | <b>(\$19,472)</b>                             |

Notes are an integral part of the basic financial statements.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of Presentation**

Government-wide Financial Statements:

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all activities of the District. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* (of which, the District has none).

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

Governmental Funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.



**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Measurement Focus/Basis of Accounting - continued**

Interest on invested funds and revenue from sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received because they usually are not measurable until then.

Project expenditures represent costs that are funded from federal, state, or district revenues. State project 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 Non-exchange Transactions, revenues for non-exchange 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**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

**Assets, Liabilities, and Fund Balance Accounts**

**Cash and Cash Equivalents**

For the purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred Outflows/Inflows of Resources**

The Pipestone Soil and Water Conservation District implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. In addition to assets, the financial statements 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (revenue) until that time. The District currently does not have any items that qualify for reporting in this category.

**Liabilities**

Long term liabilities, such as compensated absences, are accounted for in the Government-wide Statement of Net Position.

**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 8 to 14 hours per month. Sick leave accrual is 8 hours per month. The limit on the accumulation of annual leave is 240 hours and the limit on sick leave is 240 hours. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to 120 hours of accrued sick leave. On termination of employment by illness or death, employees are paid accrued vacation and up to 120 hours of accrued sick leave.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Position Classifications**

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- Restricted net position- Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- Unrestricted net position- Net position that does not meet the definition of “restricted” or “net investment in capital assets”.

**Explanation of Adjustments Column in Statements**

1. Capital Assets: In the Statement of Net Position and Governmental Fund Balance Sheet, and adjustment is made if the district has capital assets. This adjustment equals the net book balance of capitalized assets.
2. 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 as of the report date.
3. 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.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Excess of Expenditures over Budget**

During 2014, actual expenditures, \$361,357, exceeded budgeted expenditures, \$263,884, by \$97,473.

**General Fund Deficit**

At December 31, 2014, the District’s General Fund did not have a deficit fund balance.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

Concentrations of Credit Risk

The risk of loss attributed to the magnitude of the District's investments in a single issuer. The District places no limit on the amount that may be invested in any one issuer.

Summary of the District's deposits as follows:

|                         | <u>Bank<br/>Balance</u> | <u>Carrying<br/>Amount</u> |
|-------------------------|-------------------------|----------------------------|
| Checking                | \$ 156,978              | \$ 156,285                 |
| Savings                 | 179,852                 | 179,852                    |
| Certificates of Deposit | <u>232,843</u>          | <u>232,843</u>             |
| Total Deposits          | <u>\$ 569,673</u>       | <u>\$ 568,980</u>          |

**Investment Policy**

The District has an adopted investment policy, conforming to all applicable laws of the State of Minnesota, which serves as the guide to deposit and investment of operating funds which are managed within the District's pooled cash and investment portfolio. This policy sets for the District's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide to proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the District's investment program as set forth by the investment policy is preservation of capital and protection of investment principal. Investment decisions are made under the assumption that except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**COUNTY APPROPRIATION**

County appropriation for the District in 2014 consisted of the annual allocation in the amount of \$50,000 from Pipestone County.

**CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2014 is as follows:

|   | Balance<br>1/1/14 | Additions     | Deletions | Balance<br>12/31/14 |
|---|-------------------|---------------|-----------|---------------------|
| Governmental Activities:                    |                   |               |           |                     |
| Capital Assets Being Depreciated:           |                   |               |           |                     |
| Buildings & Improvements                    | 94,750            |               |           | 94,750              |
| Machinery and Equipment                     | 48,402            | 30,045        |           | 78,447              |
| Furniture and Fixtures                      | 2,958             |               |           | 2,958               |
| Vehicles                                    | 49,536            |               |           | 49,536              |
| Total Capital Assets Being Depreciated      | <u>195,646</u>    | <u>30,045</u> |           | <u>225,691</u>      |
| Less Accumulated Depreciation for:          |                   |               |           |                     |
| Buildings                                   | 6,517             | 4,345         |           | 10,862              |
| Machinery and Equipment                     | 37,392            | 5,018         |           | 42,410              |
| Furniture and Fixtures                      | 489               | 326           |           | 814                 |
| Vehicles                                    | 26,795            | 9,602         |           | 36,398              |
| Total Accumulated Depreciation              | <u>71,193</u>     | <u>19,291</u> |           | <u>90,484</u>       |
| Total Capital Assets Being Depreciated, Net | <u>124,453</u>    |               |           | <u>135,207</u>      |
|   | <u>124,453</u>    |               |           | <u>135,207</u>      |

**COMPENSATED ABSENCES PAYABLE**

Changes in compensated absences for the year ended December 31, 2014 is:

|                                   |                |
|-----------------------------------|----------------|
| Balances January 1, 2014          | \$2,520        |
| Increases in Compensated Absences | 11,002         |
| Decreases in Compensated Absences | <u>6,828</u>   |
| Balance December 31, 2014         | <u>\$6,694</u> |

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 4. OTHER INFORMATION (Continued)**

**COMMITMENTS AND CONTINGENCIES**

*Grant Program Involvement*

In the normal course of operations, the District participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning authority, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as the result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

*Litigation*

The District is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the District, the District feels that the settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

**DEFINED BENEFIT PENSION PLANS - STATEWIDE**

**Plan Description**

The District contributes to cost-sharing multiple-employer defined benefit pension plans 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, MN 55103-2088. You can reach them at 651-296-7460 or 1-800-652-9026.

**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 District makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014.



**Kinner & Company Ltd**  
Certified Public Accountants

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

Governing Board  
Pipestone Soil and Water Conservation District  
Pipestone, MN 56164

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the aggregate remaining fund information of the Pipestone Soil and Water Conservation District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Pipestone Soil and Water Conservation District's basic financial statements and have issued our report thereon dated August 21, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Pipestone 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 opinion on the financials statements, but not for the purpose of expressing an opinion on the effectiveness of the Pipestone Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pipestone 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 prior and current audit findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of prior and current audit findings and responses to be a material weakness: 2014-1.

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF PRIOR AND CURRENT AUDIT  
FINDINGS AND RESPONSES  
DECEMBER 31, 2014**

**CURRENT FINDINGS**

**2014-1 Finding: Segregation of Duties**

Statement of Condition: The District has limited personnel available to perform accounting duties.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

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

Effect of Condition: As a result of lack of segregation personnel are performing duties which, for internal control purposes, should be performed by a separate individual.

Recommendation: This is not unusual in Districts of this size. The District's board should be aware of this condition and monitor duties of District personnel.

Response: We concur with the recommendation. The District's board will monitor duties.

**PRIOR FINDINGS**

**2012-1 Finding:** A material weakness was reported due to lack of segregation of duties within the organization. This finding continues to exist as Finding 2014-1.

**2012-2 Finding:** A significant deficiency was reported due to the lack of a resolution adopting GASB Statement No. 54. This finding has been resolved.