

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA
FINANCIAL REPORT
DECEMBER 31, 2023**

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

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DECEMBER 31, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Clay Soil and Water Conservation District
Moorhead, 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 Clay Soil and Water Conservation District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Clay 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 Clay Soil and Water Conservation District, as of December 31, 2023, 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 Clay 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.

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 Clay 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 Clay 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 Clay 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 25-29 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 Clay Soil and Water Conservation District's basic financial statements. The Breakdown of County Revenue and Deferred Revenue Breakdown on pages 30 and 31, 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 19, 2024, on our consideration of the Clay 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 Clay Soil and Water Conservation District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Johnson & Roggenbuck PA". The signature is written in dark ink and is positioned above the typed name of the firm.

Johnson & Roggenbuck, P.A.
Ortonville, Minnesota
September 19, 2024

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

The Clay 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, 2023. 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

The analysis of the District's general fund begins on page 6. The fund financial statements begin on page 8 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.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

THE DISTRICT AS A WHOLE

The District's net position increased by \$49. 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**

	Governmental Activities	
	2023	2022
Assets		
Current Assets	\$ 775,711	\$ 511,077
Capital Assets, Net of Accumulated Depreciation & Amortization	166,820	217,293
Total Assets	942,531	728,370
Deferred Outflows of Resources	71,350	126,223
Total Assets and Deferred Outflows of Resources	<u>1,013,881</u>	<u>854,593</u>
Liabilities		
Current Liabilities	\$ 577,255	\$ 313,073
Long-Term Liabilities	366,905	554,713
Total Liabilities	944,160	867,786
Deferred Inflows of Resources	94,197	11,332
Total Liabilities and Deferred Inflows of Resources	<u>1,038,357</u>	<u>879,118</u>
Net Position		
Investment in Capital Assets	37,830	57,210
Unrestricted	(62,306)	(81,735)
Total Net Position	<u>(24,476)</u>	<u>(24,525)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 1,013,881</u>	<u>\$ 854,593</u>

Net position of the District governmental activities increased by .20 percent (a deficit of \$24,476 compared to a deficit of \$24,525). 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 \$81,735 deficit at December 31, 2022 date to a \$62,306 deficit at the end of this year.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

**TABLE 2
Changes in Net Position**

	Governmental Activities	
	2023	2022
Revenues		
Program Revenues:		
Intergovernmental	\$ 908,099	\$ 873,250
Charges for Services	133,596	117,544
General Revenues:		
Investment Earnings	4,185	1,142
Miscellaneous	17,811	57,851
Total Revenues	<u>1,063,691</u>	<u>1,049,787</u>
 Program Expenses		
Conservation	<u>1,063,642</u>	<u>1,101,028</u>
Total Expenses	<u>1,063,642</u>	<u>1,101,028</u>
 Increase (Decrease) in Net Position	<u>\$ 49</u>	<u>\$ (51,241)</u>

The District's total revenues increased by 1.32 percent (\$13,904). The total cost of all programs and services decreased by \$37,386 or 3.40 percent. The increases in revenues and expenses relate to the availability of funds and the needs of consumers.

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 fund balance of \$272,124, which is an increase over last year's total of \$229,097.

General Fund Budgetary Highlights

There was no change in the Clay Soil & Water Conservation District's original and final budget for the year 2023. There were significant increases and decreases in certain revenues and expenditures. The following summarizes each line item with significant variances.

2023 Revenues

County

In 2023, this budget line item showed a negative variance of \$1,297. This is due to Aquatic Invasive Species projects not being completed in 2023 therefore deferring that amount to 2024.

State Grants

In 2023, State Grants showed a negative variance of \$462,959 largely due to the Snakey Creek project not as far along as budgeted. The project is to repair and stabilize the creek. Only half of the funds were received in 2023 and were mostly deferred to 2024. The negative variance is also due to One Watershed, One Plan, a watershed management plan created through Minnesota Board of Water and Soil Resources (BSWR). The progress of these projects were occurring slower than expected. The negative variance is offset by the positive variance in the State Project Expenditures category.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

Charges for Services

The charges for services category along with the other miscellaneous revenue category reflect the total self-generated income for the district. When combined, the two categories show a positive variance of \$51,787 from the final budget. The positive difference is due to more tree sales and a reimbursement for the purchase of a drill. Miscellaneous revenue is variable and dependent on the activities of the District.

2023 Expenditures

District Operations

In 2023, the District had a negative variance of \$47,111 in total District Operations. Increases in personnel services were due to the addition of 2 employees in 2023. Capital outlays of \$14,886 were not budgeted as they were reimbursed from grant funds.

Project Expenditures – District

In 2023, the district showed a negative variance of \$3,231 in district expenditures. This negative variance is due to increased tree fabric costs. This negative variance is offset by the positive variances in Charges for Services.

Project Expenditures – County

In 2023, the District had a small positive variance in the county project expenditures category of \$3,678 mostly due to Aquatic Invasive Species funds carried from 2022.

Project Expenditures – State

In 2023, the District had a positive variance in the state project expenditures category of \$500,975 due to slower implementation of the Snakey Creek Clean Water projects and One Watershed, One Plan.

CAPITAL ASSETS & LONG-TERM LIABILITIES

Capital Assets

At the end of 2023, the District had \$166,820 invested in capital assets, including drills, a tractor, vehicles, and a leased building. This amount represents a net decrease (including additions and deductions) of \$50,473 or 23.23 percent, under last year.

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

	Governmental Activities	
	2023	2022
Equipment	\$ 41,842	\$ 59,712
Leased Building	124,978	157,581
Totals	<u>\$ 166,820</u>	<u>\$ 217,293</u>

The District purchased equipment totaling \$14,886 in 2023.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023**

Long-Term Liabilities

At the end of 2023, the District had long-term liabilities of \$440,573.

	2023	2022
Compensated Absences	\$ 59,948	\$ 45,561
Net Pension Liability	251,635	380,162
Leases	128,990	160,083
Total Long-Term Liabilities	\$ 440,573	\$ 585,806

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year budget and fees for services. Without a stable funding mechanism in place it is difficult for the District to develop, with great accuracy, an annual budget. There are many uncontrollable factors that come into play each year which may have an impact on the District's budget. The District considers the costs associated with tree planting and matting installation along with the costs of trees and matting. Another cost to consider is the fuel and unknown expenses involved. Employee salaries/benefits and general operating expenses are considered. The District is not aware of any special grants that will be available until they are announced, if any should be available.

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 Clay Soil and Water Conservation District at 1615 30th Avenue South, Moorhead, MN 56560 or (218) 287-2255.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2023**

	General Fund	Adjustments See Notes	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 589,497	\$ -	\$ 589,497
Accounts receivable	191	-	191
Due from other governments	186,023	-	186,023
Capital assets, net	-	166,820	166,820
Total Assets	775,711	166,820	942,531
Deferred Outflows of Resources			
Defined benefit pension plan	-	71,350	71,350
Combined Assets and Deferred Outflows of Resources			
	\$ 775,711	\$ 238,170	\$ 1,013,881
Liabilities			
Current liabilities:			
Accounts payable	\$ 38	\$ -	\$ 38
Unearned revenue	503,549	-	503,549
Compensated absences	-	41,550	41,550
Lease payable	-	32,118	32,118
Long-term liabilities:			
Compensated absences	-	18,398	18,398
Net pension liability	-	251,635	251,635
Lease payable	-	96,872	96,872
Total Liabilities	503,587	440,573	944,160
Deferred Inflows of Resources			
Defined benefit pension plan	-	94,197	94,197
Combined Liabilities and Deferred Inflows of Resources			
	503,587	534,770	1,038,357
Fund Balance/Net Position			
Fund Balance			
Assigned to compensated absences	59,948	(59,948)	-
Unassigned	212,176	(212,176)	-
Total Fund Balance	272,124	(272,124)	-
Total Liabilities and Fund Balance	\$ 775,711		
Net Position			
Investment in capital assets		37,830	37,830
Unrestricted		(62,306)	(62,306)
Total Net Position		(24,476)	(24,476)
Total Liabilities and Net Position		\$ 238,170	\$ 1,013,881

Notes are an integral part of the basic financial statements.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2023**

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$ 908,099	\$ -	\$ 908,099
Charges for services	133,596	-	133,596
Investment earnings	4,185	-	4,185
Miscellaneous	17,811	-	17,811
Total Revenues	1,063,691	-	1,063,691
Expenditures/Expenses			
Conservation			
Current	1,005,778	57,864	1,063,642
Capital outlay	14,886	(14,886)	-
Total Expenditures/Expenses	1,020,664	42,978	1,063,642
Excess of Revenues Over (Under)			
Expenditures/Expenses	43,027	(42,978)	49
Fund Balance/Net Position January 1	229,097	(253,622)	(24,525)
Fund Balance/Net Position December 31	\$ 272,124	\$ (296,600)	\$ (24,476)

Notes are an integral part of the basic financial statements.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Intergovernmental			
County	\$ 282,290	\$ 280,993	\$ (1,297)
State grant	1,090,065	627,106	(462,959)
Total intergovernmental	1,372,355	908,099	(464,256)
Charges for services	91,320	133,596	42,276
Miscellaneous			
Interest earnings	3,000	4,185	1,185
Other	8,300	17,811	9,511
Total miscellaneous	11,300	21,996	10,696
Total Revenues	1,474,975	1,063,691	(411,284)
Expenditures			
District operations			
Personnel services	453,580	493,250	(39,670)
Other services and charges	90,164	82,719	7,445
Capital Outlay	-	14,886	(14,886)
Total district operations	543,744	590,855	(47,111)
Project expenditures			
District	66,191	69,422	(3,231)
County	14,400	10,722	3,678
State	850,640	349,665	500,975
Total project expenditures	931,231	429,809	501,422
Total Expenditures	1,474,975	1,020,664	454,311
Excess of Revenues Over (Under)			
Expenditures	-	43,027	43,027
Fund Balance - January 1	229,097	229,097	-
Fund Balance - December 31	\$ 229,097	\$ 272,124	\$ 43,027

Notes are an integral part of the basic financial statements.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Clay 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 Clay Soil and Water Conservation District, 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.

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

The District is not considered a part of Clay 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.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

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

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 are recognized when earned. Other revenues are recognized when they are received in cash because they usually are not measurable until then.

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

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, which include property, plant, equipment, and right-of-use assets acquired under leasing arrangements, are reported on a net (depreciated or amortized) basis. General capital assets are valued at historical or estimated historical cost.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Leases

The District determines if an arrangement is a lease at inception. Leases are included in right-to-use assets and lease liabilities in the statement of net position.

Right-to-use assets represent the District's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange-like transaction. Right-to-use assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the District will exercise that option.

The District has recognized payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use assets on the statement of net position. The District accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the District treats the components as a single lease unit.

Liabilities

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

In the fund financial statements, acquisitions under leases are reported as an other financing source at the present value of the future minimum lease payments as of the inception date.

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.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

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 (reduction of pension expense) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their pension obligations. This item results from actuarial calculations.

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.

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.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

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, Lease Liability, and Net Pension Liability the district has as of the report date. See Long-Term Liabilities in Note 2.

Depreciation and Amortization, 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 and amortization 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 8.

Vacation and Sick Leave

Under the Districts personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 16 hours per month. Sick leave accrual is 96 hours per year. The limit on the accumulation of vacation leave is 240 hours and the limit on sick leave is 960 hours. Upon termination from the District, employees are paid accrued vacation and up to 200 hours of accrued sick leave.

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.

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 increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 – DETAILED NOTES

Capital Assets

The changes in capital assets and depreciation are listed below.

	Balance 1/1/2023	Additions	Deletions	Balance 12/31/2023
Capital Assets Depreciated				
Equipment	\$ 309,669	\$ 14,886	\$ -	\$ 324,555
Less: Accumulated Depreciation	249,957	32,756	-	282,713
Total Capital Assets Depreciated, Net	<u>59,712</u>	<u>(17,870)</u>	-	<u>41,842</u>
Capital Assets Amortized				
Right-Use Leased Asset	190,184	-	-	190,184
Less: Accumulated Amortization	32,603	32,603	-	65,206
Total Capital Assets Amortized, Net	<u>157,581</u>	<u>(32,603)</u>	-	<u>124,978</u>
 Total Capital Assets, Net	 <u>\$ 217,293</u>	 <u>\$ (50,473)</u>	 <u>\$ -</u>	 <u>\$ 166,820</u>

The costs of equipment are depreciated over the estimated useful lives of the related assets, while right-of-use assets are amortized over the shorter of the underlying assets estimated useful life or the lease term. Depreciation and amortization is computed using the straight-line method. Current depreciation and amortization is \$65,359. The estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Equipment	4 -10
Right-of-use buildings	10

The District uses a threshold of \$5,000 for capitalizing assets purchased.

Unearned Revenue

Unearned Revenue represents advances from the Minnesota Board of Water and Soil Resources for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded.

Total Unearned Revenue as itemized on “Unearned Revenue Breakdown” is \$503,549.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Leases

The District has entered into a lease agreement for use of office space. The lease has a term of 10 years and payments are due monthly with an interest rate of 3.25%. The following is a summary of future monthly lease payments:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 32,118	\$ 3,717
2025	33,178	2,657
2026	34,272	1,563
2027	29,422	440
Total lease payments	\$ <u>128,990</u>	\$ <u>8,377</u>

The District also has short-term equipment and tree storage leases ranging from \$1,500 to \$3,300 per year.

Long-Term Liabilities

The following is a summary of changes in the District's long-term liabilities for the year ended December 31, 2023:

	<u>January 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2023</u>
Compensated Absences	\$ 45,561	\$ 44,605	\$ 30,218	\$ 59,948
Net Pension Liability	380,162	41,622	170,149	251,635
Leases	160,083	-	31,093	128,990
Total Long-Term Liabilities	\$ <u>585,806</u>	\$ <u>86,227</u>	\$ <u>231,460</u>	\$ <u>440,573</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 ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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 \$109,779 that exceeded federal deposit insurance but were fully collateralized by securities held by the depository's agent at December 31, 2023. As of December 31, 2023, the District's deposits were not exposed to custodial credit risk.

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

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.

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. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

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 2023 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, 2023 were \$28,342. The District's contributions were equal to the required contributions as set by state statute.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Pension Costs

At December 31, 2023, the District reported a liability of \$251,635 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 \$7,051. The net pension liability was measured as of June 30, 2023, 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, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The District's proportion share was .0045% at the end of the measurement period and .0048% for the beginning of the period.

District's proportionate share of net pension liability	\$ 251,635
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>7,051</u>
Total	<u><u>\$ 258,686</u></u>

For the year ended December 31, 2023, the District recognized a increase of pension expense of \$9,212 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized \$32 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2023, 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:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 8,396	\$ 1,733
Changes in Actuarial Assumptions	40,844	68,971
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	2,674
Changes in Proportion	6,406	20,818
Contributions Paid to PERA Subsequent to the Measurement Date	<u>15,704</u>	<u>-</u>
Totals	\$ <u><u>71,350</u></u>	\$ <u><u>94,196</u></u>

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

The \$15,704 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, 2024. 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
2024	\$ 3,007
2025	(38,182)
2026	2,084
2027	(5,459)
	<u>\$ (38,550)</u>

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	33.50%	5.10%
International Equity	16.50%	5.30%
Fixed Income	25.00%	0.75%
Private Markets	25.00%	5.90%
Total	<u>100.00%</u>	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023, 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 7.0%. 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 7.0% was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0%. 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.

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%	\$ 445,162
Current Discount Rate	6.50%	\$ 251,635
1% Higher	7.50%	\$ 92,451

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.

CLAY SOIL AND WATER CONSERVATION DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 4 – PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN (DEFINED CONTRIBUTION PLAN)

Three 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% (.0025) of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2023 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$462	\$462	5%	5%	5%

NOTE 5 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Net Position

The District had a negative net position of \$24,476 as of December 31, 2023, of which \$37,830 is the net investment in capital assets, leaving a deficit of \$62,306 as unrestricted. The deficit will be eliminated with future revenues.

NOTE 6 - RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, January 1	\$ 229,097
Less: Excess of Revenues over Expenditures	<u>43,027</u>
Governmental Fund Balance, December 31	272,124
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	166,820
Plus: Deferred Outflows of Resources	71,350
Less: Long-Term Liabilities	(440,573)
Less: Deferred Inflows of Resources	<u>(94,197)</u>
Net Position	<u><u>\$ (24,476)</u></u>

CLAY SOIL AND WATER CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 7 - RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION

Change in Fund Balance	\$	43,027
Capital outlay		14,886
Right-of-use amortization		(32,603)
Pension expense, net		(9,211)
Principal payments on lease liability		31,093
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level.		(32,756)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.		<u>(14,387)</u>
Change in Net Position	\$	<u>49</u>

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2023**

Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2023	\$ 28,342	\$ 28,342	\$ -	\$ 377,898	7.50%
2022	\$ 27,249	\$ 27,249	\$ -	\$ 363,319	7.50%
2021	\$ 25,320	\$ 25,320	\$ -	\$ 337,605	7.50%
2020	\$ 25,421	\$ 25,421	\$ -	\$ 338,941	7.50%
2019	\$ 24,595	\$ 24,595	\$ -	\$ 327,934	7.50%
2018	\$ 23,641	\$ 23,641	\$ -	\$ 315,209	7.50%
2017	\$ 22,466	\$ 22,466	\$ -	\$ 299,541	7.50%
2016	\$ 19,556	\$ 19,556	\$ -	\$ 260,742	7.50%
2015	\$ 18,184	\$ 18,184	\$ -	\$ 242,456	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 December 31 of the previous year.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2023**

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 (Amount) 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
2023	0.0045%	\$ 251,635	\$ 7,051	\$ 258,686	\$ 377,898	68.45%	83.10%
2022	0.0048%	\$ 380,162	\$ 11,053	\$ 391,215	\$ 363,319	107.68%	76.70%
2021	0.0045%	\$ 192,170	\$ 5,821	\$ 197,991	\$ 337,605	58.65%	87.00%
2020	0.0047%	\$ 281,786	\$ 8,788	\$ 290,574	\$ 338,941	85.73%	79.10%
2019	0.0045%	\$ 248,795	\$ 7,666	\$ 256,461	\$ 327,934	78.21%	80.20%
2018	0.0046%	\$ 255,189	\$ 8,281	\$ 263,470	\$ 315,209	83.59%	79.50%
2017	0.0044%	\$ 280,893	\$ 3,513	\$ 284,406	\$ 299,541	94.95%	75.90%
2016	0.0039%	\$ 316,661	\$ 4,187	\$ 320,848	\$ 260,742	123.05%	68.90%
2015	0.0042%	\$ 217,666	\$ -	\$ 217,666	\$ 242,456	89.78%	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 December 31 of the previous year.

CLAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

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

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

Changes in Plan Provisions

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

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

CLAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

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.

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.

CLAY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

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.

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.

CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA

BREAKDOWN OF COUNTY REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2023

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$	173,230
WATER PLAN MONEY		25,672
WETLAND MONEY		16,447
FEEDLOT MONEY		25,000
AG INSPECTOR		25,183
AQUATIC INVASIVE MONEY		<u>15,461</u>
TOTAL	\$	<u><u>280,993</u></u>

**CLAY SOIL AND WATER CONSERVATION DISTRICT
MOORHEAD, MINNESOTA**

**UNEARNED REVENUE BREAKDOWN
DECEMBER 31, 2023**

Balance of BWSR Service Grants: \$ 38,526

Balance of unencumbered BWSR Cost-Share Grants: Current fiscal year -
Previous fiscal year -

Balance of encumbered BWSR Cost-Share Grant:

FY	Contract No.	Contract Amount	T&A Encumbered
			\$ 0

Total of all Cost-Share Encumbrances -

Balance of other funds being deferred:

Buffer	\$ 35,000
Aquatic Invasive Species	8,505
District Capacity	23,521
SWCD State Aid	138,963
Soil Health	251
Conservation Contracts	38,514
1W1P Match	20,000
Snakey Creek Clean Water	186,488
Red River Conservation Service Area	<u>13,781</u>

Subtotal of other funds: 465,023

TOTAL OF ALL UNEARNED REVENUE: **\$ 503,549**

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
Clay 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 Clay Soil and Water Conservation District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Clay Soil and Water Conservation District's basic financial statements and have issued our report thereon dated September 19, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clay 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 Clay Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clay 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 2023-01, 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 2023-02, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay 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*.

Clay Soil and Water Conservation District's Response to Findings

Clay Soil and Water Conservation District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Clay 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 black ink that reads "Johnson + Roggenbuck PA". The signature is written in a cursive, flowing style.

Johnson & Roggenbuck, P.A.
Ortonville, Minnesota
September 19, 2024

**CLAY SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2023**

MATERIAL WEAKNESS

2023-01 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

2023-02 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.

**CLAY SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2023**

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.

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.

MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

To the Board of Supervisors
Clay 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 Clay Soil and Water Conservation District as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Clay Soil and Water Conservation District's basic financial statements, and have issued our report thereon dated September 19, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that Clay Soil and Water Conservation District failed to comply with the provisions of 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 District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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.



Johnson & Roggenbuck, P.A.
Ortonville, Minnesota
September 19, 2024