

The following is reference information for your auditor's use:

Soil and water conservation districts (SWCDs) are considered local units of governments and, as a general rule, obtain funding from three sources: their county, the Minnesota Board of Water and Soil Resources (BWSR), and charges for services. SWCDs receive an annual allocation from the county for operating expenses. BWSR (state) General Service and RIM (Reinvest in Minnesota) Service grants are to be used for operating expenses and BWSR Cost-Share (regular and special projects) Project funds are for payments to landowners who installed conservation practices. The Cost-Share funds are reimbursements to landowners for costs of completed conservation practice projects (75 percent limit on combined state and federal funding). Self-generated funds (charges for services) are usually from selling trees and tree-related items, as well as plat books, equipment rentals etc. Some SWCDs also charge for services such as wetland delineations and reading DNR observation wells.

The Natural Resources Block Grant (NRBG) is a grant from the BWSR to Minnesota counties. It has five elements: Wetland Conservation Act funds (WCA), Comprehensive Local Water Plan (CLWP) funds, DNR Shoreland funds, MPCA Feedlot funds, and MPCA Individual Sewage Treatment Systems (ISTS) funds. The grant agreement states that at least \$5,000 of the WCA funds should be forwarded to the SWCD within 30 days of receipt by the county. Other mutually agreeable arrangements may be made between the county and the district. The CLWP funds may be kept by the county or any part or all of it could go to the SWCD, depending on the district's role in water plan activities. A county levy or cash equivalent match is required for the CLWP funds, and a one-to-one cash or in-kind match is required for the WCA, the shoreland, and the feedlot components of the NRBG grant. These funds should be recorded as "county revenue" in the SWCD books, as the county has already recorded them as "state revenue." Page three of the SWCD annual financial report is the "Breakdown of County Revenue" where the amounts for the annual allocation, WCA, and CLWP, etc. are shown separately.

The funds from BWSR to the districts are usually received in August and are two-year grants to be spent by June 30 of the second following year. General Service and RIM Service funds are to be used for district operations or be returned to the State Treasurer if unspent during the grant period. Cost-Share funds (including Special Project & Rollover funds) need to be encumbered by June 30 of the second year. Contracts for these encumbrances should be available in the district office. If project costs for which contracts have been signed come in under the amount encumbered, the district is to return the surplus to BWSR within 30 days (if it is after the encumbering period for that grant).

Districts have grant agreements in their offices that identify the use and encumbering dates of the BWSR grants. Usually they are only three or four page documents, so they can be quickly perused.

The SWCDs report on a cash basis during the calendar year and switch to a modified accrual basis for year end reporting. They are sent a blank report to fill in each year, which is a simplified version of other governmental unit's report forms. SWCDs use only one general fund (although they may do fund accounting if they choose) and keep track of their various grants on a BWSR-required "Program Record." This identifies the funding source and the receipts, disbursements, and balance of each fund each month.

All of the state statutes that pertain to SWCDs are found in Chapter 103 (mainly B, C, and F).

Districts report expenditures in two categories: "District Operations" and "Projects." District project expenditures are usually for trees and other items to be sold. State project expenditures are payments to landowners for conservation practices.

Beginning with the 2004 report districts prepared their financial statements under the rules of GASB34. This changed the format of the balance sheet and income statement, plus added the new element "Management Discussion and Analysis."

Beginning with the 2011 report districts prepared their financial statements under the rules of GASB54, which

made title changes in the Statement of Net Assets Fund Balance Section and in the corresponding Notes Section.

When you have completed the draft audit, please send it to the Office of the State Auditor (OSA) for review. The OSA auditor reviewing the report will return it to you with any comments or corrections. You may issue a final report to the district after you receive the OSA's comments.

It would be very helpful to the district staff if you would discuss and explain any changes you think need to be made to their books. If you think a journal entry is in order to correct an amount, please explain to them why you are doing so and be sure they understand what needs to be done. Also, check to make sure they hadn't already corrected the problem since the end of the year. Many of the mistakes made on the annual financial reports are a result of audit entries requested by the auditor without explanation - and those entries end up being a duplication of something the district staff had done early in the next calendar year.

Please have the draft to the OSA by October 31. (Electronic submission preferred: tom.karlson@osa.state.mn.us) The district runs the risk of losing grant money if their audits are not completed on time.

All audits should be finalized by December 31. If special circumstances exist that require extra time, please contact Bill Eisele of BWSR (651-282-2929) for an extension.

After the final audit is complete, please send one copy, along with the management and compliance letter, to the Board of Water and Soil Resources. Electronic submission preferred: bill.eisele@state.mn.us. Or mail to 520 Lafayette Rd, St. Paul, MN 55155. Send another copy, along with the management and compliance letter to Tom Karlson, Office of the State Auditor. Electronic address above. Or mail to 525 Park Street, Suite 400, St. Paul, MN 55103. Tom's phone number is 651-296-4715. Send the rest of the copies to the district for distribution.