

**COTTONWOOD SOIL AND WATER
CONSERVATION DISTRICT**

FINANCIAL STATEMENTS

DECEMBER 31, 2020

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2020**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Cottonwood Soil and Water Conservation District
Windom, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Cottonwood Soil and Water Conservation District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Cottonwood Soil and Water Conservation District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Cottonwood Soil and Water Conservation District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 Cottonwood Soil and Water Conservation District as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 19 and defined benefit pension plan schedules on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2021, on our consideration of the Cottonwood 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 effectiveness of 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 Cottonwood Soil and Water Conservation District's internal control over financial reporting and compliance.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

November 24, 2021

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
WINDOM, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2020**

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 416,260	\$ -	\$ 416,260
Accounts Receivable	30,318	-	30,318
Due from Other Governments	23,568	-	23,568
Prepaid Rent	1,900	-	1,900
Capital Assets:			
Equipment (net of accumulated depreciation)	-	5,816	5,816
Total Assets	<u>472,046</u>	<u>5,816</u>	<u>477,862</u>
Deferred Outflows of Resources			
Defined Benefit Pension Plan	-	57,005	57,005
Combined Assets and Deferred Outflows of Resources			
	<u>\$ 472,046</u>	<u>\$ 62,821</u>	<u>\$ 534,867</u>
Liabilities			
Current Liabilities:			
Accounts Payable	\$ 637	\$ -	\$ 637
Due to Other Governments	34,397	-	34,397
Sales Tax Payable	91	-	91
Accrued Payroll Taxes	16	-	16
Unearned Revenue	315,397	-	315,397
Long-term Liabilities:			
Net Pension Liability	-	335,746	335,746
Compensated Absences	-	70,309	70,309
Total Liabilities	<u>350,538</u>	<u>406,055</u>	<u>756,593</u>
Deferred Inflows of Resources			
Defined Benefit Pension Plan	-	17,430	17,430
Combined Liabilities and Deferred Inflows of Resources			
	<u>\$ 350,538</u>	<u>\$ 423,485</u>	<u>\$ 774,023</u>
Fund Balance/Net Position			
Fund Balance			
Non-spendable - Prepaid Rent	\$ 1,900	\$ (1,900)	\$ -
Unassigned	119,608	(119,608)	-
Total Fund Balance	<u>\$ 121,508</u>	<u>\$ (121,508)</u>	<u>\$ -</u>
Net Position			
Investments in Capital Assets		\$ 5,816	\$ 5,816
Unrestricted		(244,972)	(244,972)
Total Net Position		<u>\$ (239,156)</u>	<u>\$ (239,156)</u>

Notes are an integral part of the basic financial statements.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
WINDOM, MINNESOTA
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2020**

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 1,208,403	\$ -	\$ 1,208,403
Charges for Services	39,560	-	39,560
Interest Earnings	1,734	-	1,734
Miscellaneous	45	-	45
Total Revenues	<u>\$ 1,249,742</u>	<u>\$ -</u>	<u>\$ 1,249,742</u>
Expenditures/Expenses			
Conservation			
Current	\$ 1,227,981	\$ 456	\$ 1,228,437
Capital Outlay	6,708	(6,708)	-
Total Expenditures/Expenses	<u>\$ 1,234,689</u>	<u>\$ (6,252)</u>	<u>\$ 1,228,437</u>
Excess of Revenues Over (Under) Expenditures/Expenses	\$ 15,053	\$ 6,252	\$ 21,305
Fund Balance/Net Position - January 1, as previously reported	<u>\$ 398,002</u>	<u>\$ (366,916)</u>	<u>\$ 31,086</u>
Adjustment to Beginning Fund Balance	(291,547)	-	(291,547)
Fund Balance/Net Position - January 1, restated	106,455	(366,916)	(260,461)
Excess of Revenues Over (Under) Expenditures/Expenses	<u>15,053</u>	<u>6,252</u>	<u>21,305</u>
Fund Balance/Net Position December 31	<u>\$ 121,508</u>	<u>\$ (360,664)</u>	<u>\$ (239,156)</u>

Notes are an integral part of the basic financial statements.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Cottonwood Soil and Water Conservation District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

Financial Reporting Entity

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

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

The District provides technical and financial assistance to individuals, groups, districts, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution and improper land use.

GAAP requires that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burdens on, the organization. These financial statements include all funds of the District. There are no other entities for which the District is financially accountable.

Basic Financial Statements

The Cottonwood Soil and Water Conservation District meets the definition of a Special-Purpose government and is involved in only one program, i.e., conservation of soil and water resources. Accordingly, the District is allowed to combine its government-wide statements with the fund statements.

The government-wide financial statements (i.e. The Statement of Net Position and The Statement of Activities) display information about the reporting government as a whole. These statements include all financial activities of the District.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements (Continued)

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 or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Certain items not properly included among program revenues are reported instead as miscellaneous revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary, or fiduciary. Currently, the District has only governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. 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 the related cash flows. Charges for services revenue is recorded when earned. Grants and similar items are recognized as revenues when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are considered measurable when the amount of the transaction can be determined. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. County and local grant revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Investment earnings are recorded when earned because they are measurable and available. Miscellaneous revenues (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. A six-month availability period is generally used for other fund revenue. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements in advance of the year in which the item is to be used.

The District reports the following major governmental funds:

General Fund – This is the District's primary operating fund. It accounts for all financial resources of the general government.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Cash

Cash consists of two checking accounts and a savings account.

Accounts Receivables and Due from Other Governments

Receivables are collectible within one year.

Due from other governments are recorded for state, local and county grant amounts that were received after year-end and all eligibility requirements had been met.

Capital Assets

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. For the purpose of computing depreciation, the useful life for Machinery and Equipment is 5 to 10 years, Vehicles are 5 years, Buildings and Improvements are 20 to 30 years, and 5 years for Office Equipment and Furniture. The District uses the threshold of \$1,000 for capitalizing assets purchased.

Unearned Revenue

Unearned revenue is recorded for amounts of state, county, and local grant amounts received prior to satisfying all eligibility requirements imposed by the providers.

Compensated Absences

Under the District's personnel policies, employees are granted vacation and sick leave in varying amounts based on their length of service. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements, and are payable with expendable available resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2020 are determined on the basis of current salary rates and include salary related payments.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

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. 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.

Deferred Outflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This separate financial statement element 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) until that time. The District has one type of deferred outflow which is pension related.

Deferred Inflows of Resources

In addition to liabilities, the financial statements 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of deferred inflow which is pension related.

Fund Balance

In the fund financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned, or unassigned. Non-spendable portions of fund balance relate to prepaid expenditures or inventory amounts. Restricted fund balances are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balance represents constraints on spending that the District imposes upon itself by a high-level formal action prior to the close of the fiscal period. The District's Board of Supervisors authorizes all assigned fund balances and their intended uses. The District currently doesn't report any assigned fund balances. Unassigned fund balances are considered the remaining amounts, usually in the General Fund, only.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows in the government-wide financial statements. Net investments in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

Explanation of Adjustments Column in Statements

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

Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absences and Net Pension Liability the District has as of the report date. See note on Long-Term Liabilities.

Depreciation, Net Pension Expense 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 net pension expense and the change in compensated absences between the reporting year and the previous year.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 24, 2021, the date the financial statements were available to be issued.

NOTE 2 – 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 Statute 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. When not covered by insurance or surety bonds, the market value of collateral pledged shall be at least ten percent more than the amount on deposit (plus accrued interest) at the close of the financial institution's banking day.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; 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.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 – DEPOSITS (CONTINUED)

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 market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The District has no additional deposit policies addressing custodial credit risk. Of the \$416,113 bank balance at December 31, 2020, all of the District's deposits were insured, collateralized and covered by the FDIC.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2020 was as follows:

	Beginning	Addition	Deletion	Ending
Buildings and Improvements	\$ 15,393	\$ -	\$ -	\$ 15,393
Machinery and Equipment	29,307	-	-	29,307
Vehicles	86,101	-	-	86,101
Office Equipment and Furniture	39,581	6,708	-	46,289
Total	170,382			177,090
Less: Accumulated Depreciation	155,518	15,756	-	171,274
Net Capital Assets	<u>\$ 14,864</u>			<u>\$ 5,816</u>

Current year depreciation is \$15,756.

NOTE 4 – UNEARNED REVENUE

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR), local sources and County for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2020, consists of the following: BWSR Cost Share Program \$26,515; Local Capacity \$187,978; Buffer Law \$31,778; Wetlands \$5,000; Watonwan Technician \$538; Conservation Delivery \$13,975; Easement Delivery \$8,760; Watonwan Contract \$1,832; Water Quality \$2,841; County Cost Share Buffer \$5,000; Southwest Prairie TSA \$28,190; Lawns to Legumes Cost Share \$2,990; Total \$315,397.

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in the District's long-term liabilities for the year ended December 31, 2020:

	January 1, 2020	Increases	Decreases	December 31, 2020
Net Pension Liability	\$ 270,910	\$ 64,836	\$ -	\$ 335,746
Compensated Absences	90,912	-	20,603	70,309
Total	<u>\$ 361,822</u>	<u>\$ 64,836</u>	<u>\$ 20,603</u>	<u>\$ 406,055</u>

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

Vacation and Sick Leave

Vacation leave accrual varies from 6 to 20 days per year. Sick leave accrual is 8 hours per month. The limit on the accumulation of vacation leave is 34 hours (272 hours) and the limit on the accumulation of sick leave is 720 hours. Upon termination of employment from the District, employees are paid accrued vacation leave and sick leave hours, based on years of service.

Compensated Absences Payable

The amount of the estimated obligation at December 31, 2020 is \$70,309. The District's General Fund finances compensated absences on a pay-as-you-go-basis.

NOTE 6 – 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. The District has entered into an agreement with the Minnesota Counties Intergovernmental Trust (MCIT) to cover its liabilities for workers compensation and property and casualty. For other risks, the District carries commercial insurance. There were no significant reductions of insurance coverage from the previous year. There have been no settlements in excess of the District's insurance coverage for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contribution charges, so that the total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy the claims liabilities and other expenses. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the District in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining and the District pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the District in a method and amount to be determined by MCIT.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plan 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.

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.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 percent for each of the first ten years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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. Beginning in 2019, the postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.00 percent and a maximum of 1.50 percent. 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. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended December 31, 2020, were \$28,495. The District's contributions were equal to the required contributions as set by state statute.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Costs

At December 31, 2020, the District reported a liability of \$335,746 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 \$10,402. The net pension liability was measured as of June 30, 2020, 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 proportionate share 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, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA’s participating employers. The District’s proportionate share was .0056 percent at the end of the measurement period and .0049 percent for the beginning of the period.

District's proportionate share of the net pension liability	\$ 335,746
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>10,402</u>
Total	<u><u>\$ 346,148</u></u>

For the year ended December 31, 2020, the District recognized pension expense of \$5,303 for its proportionate share of the General Employees Plan’s pension expense. In addition, the District recognized an additional \$905 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.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

At December 31, 2020, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,130	\$ 1,270
Changes in actuarial assumptions	-	11,568
Net collective difference between projected and actual investment earnings	8,266	-
Changes in Proportion	32,497	4,592
Contributions paid to PERA subsequent to the measurement date	13,112	-
Total	\$ 57,005	\$ 17,430

The \$13,112 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, 2021. 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
2021	\$ (9,229)
2022	11,746
2023	16,051
2024	7,895

Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 percent per year
Active Member Payroll Growth	3.25 percent per year
Investment Rate of Return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The 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 Stocks	35.5	5.10
International Stocks	17.5	5.30
Bonds (Fixed Income)	20.0	0.75
Alternative Assets (Private Markets)	25.0	5.90
Cash	2.0	0.00
Total	100.00	

Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.50 percent. 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 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:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the GERF net pension liability:	\$ 538,084	\$ 335,746	\$ 168,833

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

NOTE 8 – OPERATING LEASES

The District leases office space on a yearly basis. Under the current agreement total costs for 2020 were \$20,980.

NOTE 9 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the Board of Supervisors adopts an annual budget for the following year for the General Fund. Any modifications in the adopted budget can be made upon request of and approval by the Board of Supervisors. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES

The District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant.

NOTE 11 – RISK AND UNCERTAINTY

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization had declared the outbreak to constitute a "Public Health Emergency of International Concern." During 2020 the stock market was unpredictable and interest rates decreased. The economy is still managing, but future economic conditions are unknown. For fiscal year 2020, COVID-19 had little effect on the District, but the extent to which COVID-19 may impact the District's future financial condition or results of its operation is uncertain.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

The January 1, 2020 General Fund Balance was decreased by \$291,547. \$286,547 was to account for grants that were fully recognized in the 2019 audit, when they should have had ending balances in Unearned Revenue and \$5,000 was made to correct the 2019 Accounts Receivable balance that was booked in relation to the restitution they were receiving from a prior employee.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS

The Greater Blue Earth River Basin Alliance (GBERBA) was established by a joint powers agreement pursuant to Minnesota Statutes section 471.59. The purpose of the agreement is to optimize resources and increase efficiencies for the delivery of soil and water conservation services within the Greater Blue Earth River Watershed area. GBERBA is comprised of twenty-two member counties and soil and water conservation districts. Each member shares in the costs of providing soil and water conservation services.

The Southwest Prairie Technical Service Area (Southwest Prairie TSA) was established by a joint powers agreement pursuant to Minnesota Statutes section 471.59. The purpose of the agreement is to optimize resources and increase efficiencies for the delivery of soil and water conservation services within the service area known as SWCD Group 9. Southwest Prairie TSA is comprised of ten member soil and water conservation districts. Each member shares in the costs of providing all soil and water conservation services. The District is the fiscal agent for the Southwest Prairie TSA.

The Redwood-Cottonwood Rivers Control Area (RCRCA) was established by a joint powers agreement pursuant to Minnesota Statutes section 471.59. The purpose of the agreement is to optimize resources and increase efficiencies for the delivery of soil and water conservation services within the Redwood and Cottonwood rivers watershed area. RCRCA is comprised of eight member counties. Each member shares in the costs or providing all soil and water conservation services.

NOTE 14 – RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, January 1	\$	106,455
Plus: Excess of Revenues Over Expenditures		15,053
Governmental Fund Balance, December 31	\$	121,508
Adjustments from Fund Balance to Net Position:		
Plus: Capital Assets	\$	5,816
Plus: Deferred Outflows of Resources		57,005
Less: Long-Term Liabilities		(406,055)
Less: Deferred Inflows of Resources		(17,430)
Net Position	\$	(239,156)

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 15 – RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION

Change in Fund Balance	\$	15,053
Capital Outlay		6,708
Pension Expense, net		(5,303)
The cost of capital assets are allocated over the capital assets' useful lives at the government-wide level.		(15,756)
In the statement of activities certain operating expenses including compensated absences are measured by the amounts earned.		<u>20,603</u>
Change in Net Position	\$	<u><u>21,305</u></u>

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
WINDOM, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2020**

	Original/ Final Budget	Actual	Variance With Final Budget Positive (Neg)
Revenues			
Intergovernmental			
County	\$ 292,644	\$ 204,860	\$ (87,784)
Local	223,959	202,569	(21,390)
State Grant	242,608	265,096	22,488
Pass-Through	-	535,878	535,878
Total Intergovernmental	<u>\$ 759,211</u>	<u>\$ 1,208,403</u>	<u>\$ 449,192</u>
Charges for Services	<u>\$ 36,450</u>	<u>\$ 39,560</u>	<u>\$ 3,110</u>
Miscellaneous			
Interest Earnings	\$ 100	\$ 1,734	\$ 1,634
Other	-	45	45
Total Miscellaneous	<u>\$ 100</u>	<u>\$ 1,779</u>	<u>\$ 1,679</u>
Total Revenues	<u>\$ 795,761</u>	<u>\$ 1,249,742</u>	<u>\$ 453,981</u>
Expenditures			
District Operations			
Personnel Services	\$ 611,997	\$ 526,888	\$ 85,109
Other Services and Charges	96,960	62,218	34,742
Supplies	6,400	8,177	(1,777)
Capital Outlay	5,000	6,708	(1,708)
Total District Operations	<u>\$ 720,357</u>	<u>\$ 603,991</u>	<u>\$ 116,366</u>
Project Expenditures			
District	\$ 28,775	\$ 27,734	\$ 1,041
County	10,900	6,812	4,088
Local	14,100	21,414	(7,314)
State	14,091	38,860	(24,769)
Pass-Through	-	535,878	(535,878)
Total Project Expenditures	<u>\$ 67,866</u>	<u>\$ 630,698</u>	<u>\$ (562,832)</u>
Total Expenditures	<u>\$ 788,223</u>	<u>\$ 1,234,689</u>	<u>\$ (446,466)</u>
Excess of Revenues Over (Under)			
Expenditures	\$ 7,538	\$ 15,053	\$ 7,515
Fund Balances - January 1, as previously reported	<u>\$ 398,002</u>	<u>\$ 398,002</u>	<u>\$ -</u>
Adjustment to Beginning Fund Balance	(291,547)	(291,547)	-
Fund Balances - January 1, as restated	106,455	106,455	-
Excess of Revenues Over (Under)			
Expenditures	<u>7,538</u>	<u>15,053</u>	<u>7,515</u>
Fund Balances - December 31	<u><u>\$ 113,993</u></u>	<u><u>\$ 121,508</u></u>	<u><u>\$ 7,515</u></u>

The Notes to the Required Supplementary Information are an integral part of this schedule.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
WINDOM, MINNESOTA**

**SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2020**

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)
2015	\$ 17,353	\$ 17,353	\$ -	\$ 227,329	7.63%
2016	\$ 19,828	\$ 19,828	\$ -	\$ 264,373	7.50%
2017	\$ 24,700	\$ 24,700	\$ -	\$ 342,512	7.21%
2018	\$ 24,051	\$ 24,051	\$ -	\$ 327,787	7.34%
2019	\$ 28,069	\$ 28,069	\$ -	\$ 374,257	7.50%
2020	\$ 28,495	\$ 28,495	\$ -	\$ 379,930	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 year-end were determined December 31.

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2020**

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	Covered Payroll (c)	Employers 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
2015	0.0039%	\$ 202,118	\$ -	\$ 202,118	\$ 227,329	88.91%	78.19%
2016	0.0043%	\$ 349,139	\$ 4,501	\$ 353,640	\$ 264,373	133.77%	68.90%
2017	0.0051%	\$ 325,581	\$ 4,104	\$ 329,685	\$ 342,512	96.26%	75.90%
2018	0.0048%	\$ 266,284	\$ 8,633	\$ 274,917	\$ 327,787	83.87%	79.50%
2019	0.0049%	\$ 270,910	\$ 8,500	\$ 279,410	\$ 374,257	74.66%	80.20%
2020	0.0056%	\$ 335,746	\$ 10,402	\$ 346,148	\$ 398,828	86.79%	79.10%

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

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
GENERAL EMPLOYEE RETIREMENT FUND
DECEMBER 31, 2020**

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

2020 -

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- 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 percent 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 year 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent Joint & Survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent Joint & Survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality project scale was changed from MP-2017 to MP-2018.

2018 - The mortality 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.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 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.

2016 - 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 for year for all future 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 - 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.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
GENERAL EMPLOYEE RETIREMENT FUND
DECEMBER 31, 2020**

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

2020 - Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023 and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - 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 - 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 4.00 to 3.00 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. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 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, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16.0 million in 2017 and 2018, and \$6.0 million thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21.0 million to \$31.0 million in calendar years 2019 to 2031. The state's contribution changed from \$16.0 million to \$6.0 million in calendar years 2019 to 2031.

2015 - 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.

NOTE 2 – BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the Board of Supervisors adopts an annual budget for the following year for the General Fund. Any modifications in the adopted budget can be made upon request of and approval by the Board of Supervisors. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$1,234,689; Budget \$788,223; Excess \$446,466.

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Supervisors
Cottonwood Soil and Water Conservation District
Windom, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Cottonwood Soil and Water Conservation District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Cottonwood Soil and Water Conservation District's basic financial statements, and have issued our report thereon dated November 24, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the Cottonwood Soil and Water Conservation District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes 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 Cottonwood Soil and Water Conservation 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.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

November 24, 2021

**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
Cottonwood Soil and Water Conservation District
Windom, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Cottonwood Soil and Water Conservation District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Cottonwood Soil and Water Conservation District's basic financial statements, and have issued our report thereon dated November 24, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cottonwood Soil and Water Conservation District's internal control over financial reporting as a basis for designing 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 Cottonwood Soil and Water Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cottonwood Soil and Water Conservation District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting 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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as item 2020-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cottonwood 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 statements. 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*.

Cottonwood Soil and Water Conservation District's Response to Finding

Cottonwood Soil and Water Conservation District's response to the finding identified in our audit has been included in the Schedule of Findings and Responses. The Cottonwood 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

November 24, 2021

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2020**

2020-001 Segregation of Duties

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

Condition: Substantially all accounting procedures are performed by one person.

Cause: This condition is common to organizations of this size due to the limited number of staff.

Effect: The lack of an ideal segregation of duties subjects the District to higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The District has adequate policies and procedures in place to compensate for the lack of segregation of duties, including that all checks have to be signed by two authorized signors, the staff member or board member that is receiving a reimbursement check is not able to be one of the signors on the check, staff being hired to have accounting/finance responsibilities will have a criminal background check, and the Accounting Principles document will be reviewed and followed by all employees that deal with accounting/finance responsibilities.