

## Memorandum

**Date:** November 1, 2018

**To:** SWCD District Managers and Board Chairs

**From:** Jeremy Olson, Chief Financial Officer

### RE: SWCD Financial Statements and Audits

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The current requirements for Soil and Water Conservation Districts (SWCD) audits and financial statements have been in place since 1993. Circumstances establishing these requirements have changed over the past 25 years; therefore the Board of Water and Soil Resources (BWSR) is making changes as well. This memo outlines the next steps for SWCD audits and financial statements.

#### SWCD Audits

Minnesota Statute §103C.325 requires SWCDs to complete an annual audit unless the Office of the State Auditor (OSA) determines an annual audit is not necessary. As reflected in a 1993 Memorandum of Understanding (MOU) between BWSR and the OSA, SWCDs are currently required to submit an audit a minimum of every 3 years or when cumulative revenue reaches \$500,000. This threshold is calculated annually by BWSR after receipt of annual financial statements. BWSR staff met recently with OSA staff for an initial conversation regarding updating audit process and procedure, and ultimately the MOU, to better serve BWSR, OSA, and SWCD needs today.

In the next few months, BWSR will work with the Minnesota Association of Soil and Water Conservation Districts (MASWCD) to establish a working group of SWCD Board members and staff to further the discussion of types of audits, frequency, and thresholds to determine if changes can be made to more efficiently and effectively meet audit needs and requirements. **The charge of this working group will be to make recommendations to BWSR and the OSA for a revised MOU** reflecting audit requirements that will better meet today's needs. The goal would be to have this work completed to apply to audits completed for the year ending 2019.

#### Financial Statements

SWCDs are also required to submit unaudited financial statements annually by March 15. These financial statements are valuable in understanding SWCD revenues and expenditures, supporting legislative initiatives, and identifying if an audit is needed in a given year. However, financial statements are based on early draft numbers that are often inconsistent with the final audited numbers. Also, SWCDs have expressed difficulty in completing the required financial statements without assistance, and BWSR has limited resources to guide SWCDs through this process.

**As a pilot for 2018, BWSR is waiving the requirement to submit unaudited financial statements for SWCDs that will be completing an audit for the 2018 fiscal year, if an audit is required because the time or revenue threshold has been met.** If an SWCD has already arranged for an audit, the SWCD shall submit a Statement of Revenues and Expenditures by March 15. If the SWCD is unsure or near the threshold for the requirement to submit an audit, the SWCD may choose to submit a Statement of Revenues and Expenditures in lieu of the unaudited financial statement PRIOR to March 15 for evaluation and committing to completing an audit for the 2018 fiscal year. If an audit is not required, the SWCD must submit the full unaudited financial statement by March 15. All audit drafts must be presented to BWSR and the Office of the State Auditor annually by October 31. Future requirements for financial statements will be discussed with the Audit Working Group noted previously.

If you have any questions about the changes noted above, please contact me at [jeremy.olson@state.mn.us](mailto:jeremy.olson@state.mn.us) or 651-282-2929. If you are interested in participating with the Audit Working Group, please contact LeAnn Buck at [leann.buck@maswcd.org](mailto:leann.buck@maswcd.org) or (651) 690-9028.