

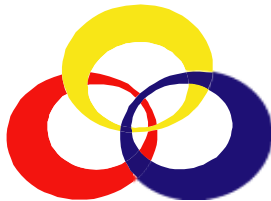
FINANCIAL AUDIT REPORT FOR THE YEAR ENDED DECEMBER 31, 2017



Lac qui Parle Soil and Water Conservation District

122 8th Avenue S.
Madison MN 56256
320-598-7321 Ext. 3
FAX 320-598-3432

The mission of the Lac qui Parle Soil and Water Conservation District is to take available technical, financial and educational resources, whatever their source, and focus or coordinate them so that they meet the needs of the local land user to help him/her protect Lac qui Parle's natural resources.



Kinner & Company Ltd
Certified Public Accountants

Taxes, QuickBooks & Investments

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
TABLE OF CONTENTS
DECEMBER 31, 2017

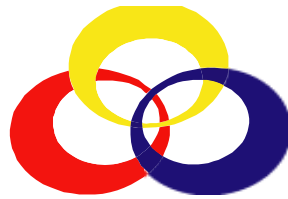
<u>INTRODUCTORY SECTION</u>	<u>Page</u>
Board of Supervisors	1
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	2-3
Required Supplementary Information (unaudited)	
Management's Discussion and Analysis	4-8
Basic Financial Statements:	
<i>Government-Wide Financial Statements/Fund Financial Statements:</i>	
Statement of Net Position and Governmental Fund Balance Sheet	9
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance	10
Budgetary Comparison Statement	11
<i>Notes to Basic Financial Statements</i>	12-34
Required Supplementary Information	
Schedule of Contributions	35
Schedule of Proportionate Share of Net Pension Liability	36
Notes to Required Supplementary Information	37
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 <i>Government Auditing Standards</i>	38-39

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
BOARD OF SUPERVISORS
DECEMBER 31, 2017**

<u>Board of Supervisors</u>	<u>Position</u>
Ed Radermacher	Chairperson
Jeff Johnson	Vice-Chairperson
Rosemary Weber	Secretary
Mike Croatt	Treasurer
Daryl Schutte	Reporter

District Manager

Chessa Frahm



Kinner & Company Ltd

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Governing Board
Lac Qui Parle Soil and Water Conservation District
Madison, MN 56256

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Lac Qui Parle Soil and Water Conservation District, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 of material misstatement.

An audit includes 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 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 opinion.

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 information of the Lac Qui Parle Soil and Water Conservation District, Minnesota as of December 31, 2017, 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.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2018, on our consideration of the Lac Qui Parle Soil and Water Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lac Qui Parle Soil and Water Conservation District's internal control over financial reporting and compliance.



Kinner & Company Ltd
Certified Public Accountants

July 9, 2018

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

The Lac qui Parle 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, 2017. Since this information is designed to focus on the 2017 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 general fund. Since Districts 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

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 the accrual basis of accounting, which is similar to the accounting used by 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 SWCD's net position and changes in them. One can think of the SWCD's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources- as one way to measure the SWCD's financial health, or financial position. Over time, increases or decreases in the SWCD's net position are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors also need to be considered to assess the overall health of the SWCD.

In the Statement of Net Position and the Statement of Activities, the SWCD presents governmental activities. All of the SWCD's basic services are reported here. Appropriations from the county and the state help to finance the SWCD's activities.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Reporting the SWCD's General Fund

Our analysis of the District's general fund is part of this report. The fund financial statements 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 the fund and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

Our analysis below focuses on the net position and change in net position of the District's governmental activities.

**Table 1
Statement of Net Position**

	Governmental Activities	
	2017	2016
Current and Other Assets	\$532,249	\$363,666
Capital Assets, Net of Depreciation	100,646	29,605
Total Assets	632,895	393,271
Deferred Outflows	93,420	79,031
Long-Term Liabilities Outstanding	172,690	181,265
Current Liabilities	331,367	175,834
Total Liabilities	504,057	357,099
Deferred Inflows	55,622	18,200
Net Position		
Net Investment in Capital Assets	100,646	29,605
Restricted	417,625	224,754
Unrestricted	(351,636)	(157,356)
Total Net Position	\$166,636	\$97,003

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE DISTRICT AS A WHOLE (continued)

The net position of the District's governmental activities increased by \$69,633. 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 deficit \$157,356 at December 31, 2016 to a deficit \$351,636 at the December 31, 2017. The deficit largely relates to the restricted balance for grants to be used for specific purposes.

**Table 2
Changes in Net Position**

	Governmental Activities	
Revenues	2017	2016
Program Revenues:		
Charges for Service	\$105,709	\$33,676
State Grants and Entitlements	218,121	178,363
County Grants and Entitlements	168,838	193,100
Other General Revenues	9,691	15,380
TOTAL Revenues	502,359	420,519
Expenses		
Program Expenses:		
Conservation	432,726	354,609
TOTAL Expenses	432,726	354,609
Change in Net Position	\$69,633	\$65,910

The District's total revenues increased by \$81,840. The total cost of all programs and services increased by \$78,117 over the prior year. These large increases are due to additional grants received and spent during 2017 as well as additional charges for services and related cost of sales.

THE DISTRICT'S GENERAL FUND

As the District completed the year, its general fund as presented in the balance sheet reported a combined fund balance of \$200,882, which is an increase of \$13,050 above last year's total of \$187,832. The District received additional grants during 2017 which have not been spent in their entirety resulting in an increased fund balance. The District also had more charges for services related to seed sales and drilling.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

General Fund Budgetary Highlights

The actual expenditures compared to appropriations were \$140,591 below the final budgeted amounts. Revenues were \$100,989 less than budgeted. Fluctuations are expected based on the needs of the consumers and availability of grants.

CAPITAL ASSETS AND LONG TERM LIABILITIES

Capital Assets

At the end of 2017, the District had \$103,496 invested in capital assets, including a lot and cooling unit in the tree storage building, vehicle, fabric mulch machine, no-till drill, and laptop computers. (See Table 3 below.) This amount increased from the previous year as the district added several items to their inventory including: copy machine, two new laptops, a Great Plains No-Till Drill, shed improvements, and a 2015 Chevrolet Malibu Car.

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

	<u>Governmental Activities</u>	
	2017	2016
Land	\$ 1,000	\$ 1,000
Buildings and Improvements	25,990	13,779
Machinery and Equipment	156,206	88,717
Total Assets	183,196	103,496
(Net of Depreciation)	\$ 100,646	\$ 29,605

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The SWCD's elected officials considered many factors when setting the fiscal-year 2018 budget. Some of the economic factors taken into account for the 2018 budget included: sales of trees and tree mats, state funding (new grants: local capacity, buffer, water quality certification grant, etc.), federal funding and the county allocation. Expense factors include expenses, employee salary increases, and health insurance benefits offered to the employees.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Lac qui Parle Soil and Water Conservation District at 122 8th Avenue South, Madison, Minnesota, or call 320-598-7321 x3.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

Government-Wide Financial Statements

Fund Financial Statements:

Governmental Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MADISON, MINNESOTA

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017

	General Fund	Adjustments See Notes	Statement of Net Position
<u>Assets</u>			
Cash and Cash Equivalents	\$ 505,881	\$ 0	\$ 505,881
Accounts Receivable	8,770	0	8,770
Interest Receivable	213	0	213
Due from Other Governments	14,719	0	14,719
Prepaid Items	1,282	0	1,282
Inventory	1,384	0	1,384
Capital Assets:			
Non-Depreciable		1,000	1,000
Depreciable Assets, net of accumulated depreciation		99,646	99,646
Total Assets	532,249	100,646	632,895
Deferred Outflows of Resources			
Defined Benefit Pension Plan	0	93,420	93,420
Combined Assets and Deferred Outflows of Resources	532,249	194,066	726,315
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	1,743	0	1,743
Unearned Revenue	329,624	0	329,624
Long-term Liabilities:			
Net Pension Liability		165,981	165,981
Compensated Absences		6,709	6,709
Total Liabilities	331,367	172,690	504,057
Deferred Inflows of Resources			
Defined Benefit Pension Plan	0	55,622	55,622
Combined Liabilities and Deferred Inflows of Resources	331,367	228,312	559,679
<u>Fund Balance/Net Position</u>			
Fund Balance			
Nonspendable	2,666	(2,666)	0
Restricted	417,625	(417,625)	0
Unassigned	(219,409)	219,409	0
Total Fund Balance	200,882	(200,882)	0
Total Liabilities and Fund Balance	\$ 532,249		
Net Position			
Investment in Capital Assets		100,646	100,646
Restricted		417,625	417,625
Unrestricted		(351,636)	(351,636)
Total Net Position		166,636	166,636
Total Liabilities, Deferred Inflows of Resources and Net Position		\$ 194,066	\$ 726,315

The notes to the financial statements are an integral part of this statement.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MADISON, MINNESOTA

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$ 386,899	\$ 60	\$ 386,959
Charges for Services	105,709	0	105,709
Interest Earnings	675	0	675
Miscellaneous	9,016	0	9,016
Total Revenues	502,299	60	502,359
Expenditures/Expenses			
Conservation			
Current	407,187	25,539	432,726
Capital Outlay	82,062	(82,062)	0
Total Expenditures/Expenses	489,249	(56,523)	432,726
Net Change in Fund Balance/Net Position	13,050	56,583	69,633
Fund Balance/Net Position January 1	187,832	(90,829)	97,003
Fund Balance/Net Position December 31	\$ 200,882	\$ (38,928)	\$ 166,636

The notes to the financial statements are an integral part of this statement.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
MADISON, MINNESOTA

BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance to Final Budget Over (Under)
Revenues				
Intergovernmental				
County	\$ 254,256	\$ 254,256	\$ 168,838	\$ (85,418)
State Grants	303,782	303,782	218,061	(85,721)
Total Intergovernmental	558,038	558,038	386,899	(171,139)
Charges for Services	38,550	38,550	105,709	67,159
Miscellaneous				
Interest Earnings	500	500	675	175
Other	6,200	6,200	9,016	2,816
Total Miscellaneous	6,700	6,700	9,691	2,991
Total Revenues	603,288	603,288	502,299	(100,989)
Expenditures				
District Operations				
Personnel Services	173,012	173,012	149,431	23,581
Other Services and Charges	53,804	53,804	52,772	1,032
Supplies	850	850	953	(103)
Capital Outlay	31,000	31,000	82,062	(51,062)
Total District Operations	258,666	258,666	285,218	(26,552)
Project Expenditures				
District	25,250	25,250	73,096	(47,846)
State	175,428	175,428	93,876	81,552
County	143,944	143,944	37,059	106,885
Total Project Expenditures	344,622	344,622	204,031	140,591
Total Expenditures	603,288	603,288	489,249	114,039
Net Change in Fund Balance	0	0	13,050	13,050
Fund Balance - January 1	136,760	136,760	187,832	51,072
Fund Balance - December 31	\$ 136,760	\$ 136,760	\$ 200,882	\$ 64,122

The notes to the financial statements are an integral part of this statement.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The more significant accounting policies established by GAAP and used by the District are discussed below.

A. REPORTING ENTITY

The Lac Qui Parle Soil and Water Conservation District was organized under provisions of *Minnesota Statutes* Chapter 103C. The District 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 damages to wetlands and wildlife habitats.

The Lac Qui Parle Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture's Natural Resources Conservation Service (former Soil 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.

Each fiscal year, the District develops a work plan, which is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

The District is not considered a part of Lac Qui Parle 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.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) 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 (typically 60 days) to pay liabilities of the current period. Revenues subject to accrual are interest on investments and intergovernmental revenues. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. The District also received an annual appropriation from the county which is recognized as revenue when received, unless it is prior to the period to which it applies. In that case, revenue is deferred until the appropriate period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

The funds of the financial reporting entity are described below:

Governmental Fund:

General Fund - The General Fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent they do not conflict or contradict guidance of the GASB.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION or FUND BALANCE

Deposits and Investments

For the purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted position) with a maturity of three months or less when purchased to be cash equivalents. As of December 31, 2017 the district has no investments.

Inventories

The District uses the consumption method to record inventory. Inventory is valued at lower of cost or market using the first-in, first-out method. The cost of other consumable materials and supplies on hand are material to the financial statements and the District has therefore chosen to report these items as inventory this year. As of December 31, 2017, inventory is \$1,384.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND NET POSITION or FUND BALANCE (Continued)**

Prepays

Prepays consist of lease payments paid during the fiscal year that will not be used until a future period.

Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

Capital Assets

Capital assets are defined by the District as assets with an initial individual cost of \$1,000 or more and an estimated life in excess of one year. Capital assets include property, plant, equipment, infrastructure assets, and intangible assets are reported in the application governmental column of the government-wide financial statements.

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the District as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide statement of net position.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION or FUND BALANCE (Continued)

Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

Land	Not Depreciated
Buildings	10-50 Years
Improvements	15-50 Years
Machinery and Equipment	3-20 Years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently recognizes deferred outflows relating to pensions for reporting in this category. The length of the expense recognition period for deferred amounts related is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (reduction of pension expense) until that time. The items that qualify for reporting in this category are amounts related to pensions. These amounts are deferred and recognized as inflows of resources in the period that the amount is earned. They also include changes in assumptions, differences between expected and actual experience, and changes in proportion and differences between District contributions and proportionate share of contributions, which are deferred and amortized over the average expected remaining service lives of active and inactive members in the plan. They also include the net difference between projected and actual earnings on pension plan investments.

Long-Term Obligations

In the government-wide financial statements, other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Long term obligations as of December 31, 2017 consist of compensated absences and net pension liability. The general fund is used to liquidate these obligations.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND NET POSITION or FUND BALANCE (Continued)**

Vacation Leave

Under the district's personnel policies, employees are granted vacation leave in varying amounts based on their length of service, as follows:

- 4 hours per pay period with less than three years of service
- 6 hours per pay period with at least three, but less than fifteen years of service.
- 8 hours per pay period for over fifteen years of service.

Unused annual leave may be accumulated for use in succeeding years. The maximum number of annual leave hours an employee may carry over into the first full pay period of January is 240 hours. Annual leave in excess of the limitation by the beginning of the first full pay period of the year will be forfeited unless the SWCD Board makes an exception for special circumstances.

Sick Leave

Regular full-time employees will earn sick leave at the rate of 4 hours per pay period. Regular part-time employees will have their sick leave pro-rated. There will be no maximum limit to sick leave accumulation.

Severance Pay

All employees who retire or terminate their employment in good standing and who have been employed for one year or more shall be entitled to pay for all unused annual leave and 25% of all unused sick leave at the rate of wage at time of separation. Severance will be paid a minimum of 50% to the employee's Health Care Savings Plan (HCSP). An employee may choose to pay 100% to their HCSP.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND NET POSITION or FUND BALANCE (Continued)**

Fund Balance Classifications

The District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the District. To be reported as committed, amounts cannot be used for any other purpose unless the District removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned fund balance – consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- Unassigned fund balance – consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

The District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District has formally adopted a fund balance policy for the General Fund. The District's policy is to maintain a minimum unassigned fund balance between the range of 35%-50% of budgeted operating expenditures for cash flow timing needs. At December 31, 2017, the unassigned fund balance of the General Fund was 0% of the subsequent year's budgeted expenditures.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES,
AND NET POSITION or FUND BALANCE (Continued)**

Net Position Classifications

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

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

E. 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.

Intergovernmental Revenue: The State of Minnesota contributed \$60 during 2017 relating to pensions. This is a government-wide adjustment. See Note 5. C.

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. This number is supported by the figures in the note on Long-Term Liabilities.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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 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.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgets

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by the District for the General Fund.

Encumbrances

The District does not utilize encumbrance accounting.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The General Fund did not have excess expenditures over appropriations as of December 31, 2017.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The District maintains a pooled cash and investment portfolio that is used by substantially all District funds using the pooled deposit and investment concept. This concept provides the District with the ability to maximize earnings on idle monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the District.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

Deposits

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all District deposits be insured, protected by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes all treasury bills, notes, and bonds; issues of U.S. governmental 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 also 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. The District does not have any deposit policies that would further limit deposit choices.

According to Minnesota Statutes, the aggregate of an entity's time/savings accounts, i.e., savings accounts, NOW accounts, and time deposits (CD's) with the same depository are insured up to a total of \$250,000. The aggregate of an entity's demand accounts, i.e., non-interest and interest-bearing checking accounts are insured up to a total of \$250,000 and are insured separately from the entity's time/savings deposits. This separate \$250,000 coverage for non-interest bearing accounts only applies if the depository is in the same state as the entity.

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Deposits in financial institutions, reported as components of cash, cash equivalents, and certificates of deposit, had a bank balance of \$513,319 at December 31, 2017, that was fully insured by depository insurance or secured with collateral held by the District's agent in its name. The carrying amount of these deposits at December 31, 2017 was \$505,881.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investment Policy

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

Separate investment policies or agreements may exist to address proceeds from certain bond issues or debt service funds in accordance with arbitrage rebate requirements.

The District is authorized by Minnesota Statutes to invest idle funds as follows:

- a.) Direct obligations or obligations guaranteed by the United States or its agencies.
- b.) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c.) General obligations of the State of Minnesota or its municipalities.
- d.) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- e.) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
- f.) Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- g.) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- h.) Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United State insurance company and with a credit quality in one of the top two highest categories.

The District does not have any investment policies that would further limit investment choices.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investment Policy (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Under the District's investment policy the District is required to mitigate its exposure to interest rate risk as follows:

- Purchasing a combination of shorter and longer term investments.
- Timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation.
- Monitoring the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.
- Unless matched to a specific cash flow requirement, the District will not directly invest in securities maturing more than five (5) years from the date of purchase.
- The average weighted maturity of the portfolio should not exceed three (3) years.
- Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the District limits their investment options to those authorized by the State of Minnesota as described above.

Concentrations of Credit Risk

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

Custodial Credit Risk

For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2017, all certificates of deposit were insured or registered or the securities were held by the District or its agent in the District's name.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

B. ACCOUNTS RECEIVABLE

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Unearned Revenue

Unearned revenue for the year ended December 31, 2017 consists of:

BWSR Service Grants:			
2018 Conservation Delivery Grant		\$	13,861
2018 Easement Delivery Grant			6,970
BWSR 2018 Buffer Law Grant:			24,980
BWSR Local Capacity Services:			
2018 Local Capacity Grant			89,493
2017 Local Capacity Grant			42,011
2016 Local Capacity Grant			19,651
Unencumbered BWSR Cost-Share Grants:			
2018 Buffer Cost Share			58,322
2018 Cost-Share Grant			20,521
2017 Cost-Share Grant:			20,353
Encumbered BWSR Cost-Share Grant:			
<u>FY</u>	<u>Contract No.</u>	<u>Contract Amount</u>	
2016	CS 2016-01	\$5,498	
2016	CS 2016-04	\$2,759	
	Total of all Cost-Share Encumbrances:		8,257
2018 County WCA Funds:			3,082
2018 County Water Plan Funds:			14,585
2017 County Water Plan Funds:			1,759
2018 MAWQCP:			5,779
TOTAL OF ALL UNEARNED REVENUE:			<u>\$ 329,624</u>

Breakdown of County Appropriation from Lac qui Parle County:

ANNUAL ALLOCATION	\$ 103,000
WATER PLAN MONEY	20,115
WCA	3,771
AIS	<u>41,952</u>
TOTAL	<u>\$ 168,838</u>

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

B. ACCOUNTS RECEIVABLE (Continued)

It should be noted that the Lac qui Parle SWCD received the budget sums as follows:

- **Annual allocation** of \$103,000 was received and spent in 2017.
- **Water Plan Money** The figure above reflects money spent in 2017.
- **Wetland Money** The figure above reflects money spent in 2017.
- **Aquatic Invasive Species funds** \$41,952 was received and considered earned in 2017.

Expenditure-driven grant revenues are recognized when the related expenditures are recorded. This may result in the appearance of slightly less revenue than actually received, or more revenue than actually received. This is due in part to overlapping fund years and expenses that may be disbursed in more than one calendar year.

C. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2017 is as follows:

	<u>Balance</u> <u>1-1-17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-17</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$1,000	\$0	\$0	\$1,000
Total Capital Assets Not Being Depreciated	<u>1,000</u>	<u>0</u>	<u>0</u>	<u>1,000</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	13,779	12,211	0	25,990
Machinery and Equipment	<u>88,717</u>	<u>69,851</u>	<u>2,362</u>	<u>156,206</u>
Total Capital Assets Being Depreciated	<u>102,496</u>	<u>82,062</u>	<u>2,362</u>	<u>182,196</u>
Less Accumulated Depreciation for:				
Buildings	10,179	647	0	10,826
Machinery and Equipment	<u>63,713</u>	<u>10,374</u>	<u>2,362</u>	<u>71,724</u>
Total Accumulated Depreciation	<u>73,892</u>	<u>11,021</u>	<u>2,362</u>	<u>82,550</u>
Total Capital Assets Being Depreciated	<u>28,605</u>	<u>71,041</u>	<u>0</u>	<u>99,646</u>
	<u>\$29,605</u>	<u>\$71,041</u>	<u>\$0</u>	<u>\$100,646</u>

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

D. LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	<u>12/31/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2017</u>
Compensated Absences	\$ 10,755	\$8,902	\$ 12,948	\$6,709
Net Pension Liability	\$170,509	\$65,330	\$69,858	\$165,981

E. FUND BALANCE CLASSIFICATION

At December 31, 2017, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>
Non-spendable:	
Inventories	\$1,384
Prepays	1,282
Restricted:	
Conservation Delivery	13,861
Easement Delivery	6,970
Buffer Law	83,301
Local Capacity	151,154
Cost-Share	49,131
MAWQCP	5,779
WCA	3,082
County Water Plan	16,344
Aquatic Invasive Species Control	88,001
Unassigned	<u>(219,409)</u>
Total Fund Balances	<u><u>\$200,882</u></u>

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION

A. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District participates in the Minnesota Counties Intergovernmental Trust to provide its general liability and property coverage. The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota counties.

All participants of the Minnesota Counties Intergovernmental Trust are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to participating counties if a deficiency occurs. The Minnesota Counties Intergovernmental Trust is self-sustaining through member premiums and re-insures through commercial companies for excess claims. The District is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies.

As of December 31, 2017, the District did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The District has not had any claims which exceeded its deductible during the past three years.

B. COMMITMENTS AND CONTINGENCIES

Grant Program Involvement

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

Litigation

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

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

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

C. LEASE AGREEMENTS

The District leases office space on a yearly basis. Under the current agreement, total costs for 2017 were \$16,690.

The District entered into a three-year lease agreement with John Deere during 2016 to lease a tractor for \$4,500 per year, payable in April.

NOTE 5. DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

The SWCD 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 (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the SWCD are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

A. PLAN DESCRIPTION (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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year 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.

B. CONTRIBUTIONS

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The SWCD was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The SWCD's contributions to the General Employees Fund for the year ended December 31, 2017, 2016 and 2015 were \$13,123, \$11,908, and \$8,551 respectively. The SWCD's contributions were equal to the required contributions as set by state statute.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

C. PENSION COSTS

General Employees Fund Pension Costs

At December 31, 2017, the SWCD reported a liability of \$165,981 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 \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. That State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$2,067. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The SWCD's proportion of the net pension liability was based on the SWCD's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the SWCD's proportion was .0026%, an increase of .0005 from .0021% at June 30, 2016.

For the year ended December 31, 2017, the SWCD recognized pension expense of \$6,826 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$60 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the SWCD 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:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 5,470	\$ 8,450
Changes in Actuarial Assumptions	22,258	16,640
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		5,046
Changes in Proportion	35,631	2,349
Employer Contributions Subsequent to the Measurement Date	6,925	
Totals	<u>\$ 70,283</u>	<u>\$ 32,485</u>

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

C. PENSION COSTS (Continued)

General Employees Fund Pension Costs (Continued)

\$6,925 reported as deferred outflows of resources related to pensions resulting from SWCD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense</u> <u>Amount</u>
2018	\$14,188
2019	\$18,192
2020	\$5,539
2021	(\$7,046)

D. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

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 all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017 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 2015.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

D. ACTUARIAL ASSUMPTIONS (CONTINUED)

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic 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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	.75%
Alternative Assets	20%	5.90%
Cash	2%	0.0%

E. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

F. PENSION LIABILITY SENSITIVITY

The following presents the SWCD 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 SWCD'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%)
Proportionate share of the General Employees Fund net pension liability:	\$257,451	\$165,981	\$91,099

G. 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 6. RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, January 1	\$187,832
Plus: Excess of Revenue Over Expenditures	<u>13,050</u>
Governmental Fund Balance, December 31	<u>\$200,882</u>
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	\$100,646
Plus: Deferred Outflows of Resources	93,420
Less: Long-Term Liabilities	172,690
Less: Deferred Inflow of Resources	<u>55,622</u>
Net Position	<u>\$ 166,636</u>

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Change in Fund Balance	\$ 13,050
Capital Outlay	82,062
Intergovernmental Revenue related to Pensions	60
Pension Expense	(18,565)
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level	(11,020)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.	<u>4,046</u>
Change in Net Position	<u>\$ 69,633</u>

REQUIRED SUPPLEMENTARY INFORMATION

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND**

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered- Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/d)</u>
December 31, 2017	\$13,123	\$13,123	-	\$174,974	7.50%
December 31, 2016	\$11,907	\$11,907	-	\$158,761	7.50%
December 31, 2015	\$8,550	\$8,550	-	\$114,006	7.50%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

**For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
 PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year	Employer's Proportion (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 the Employer (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability (a+b)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Ending							
June 30, 2017	0.0026%	\$165,981	\$2,067	\$168,048	\$165,899	101.30%	75.90%
June 30, 2016	0.0021%	\$170,510	\$2,303	\$172,813	\$132,388	130.54%	68.90%
June 30, 2015	0.0019%	\$98,468	\$0	\$98,468	\$110,186	89.37%	78.20%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

**For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE

General Employees Fund

2017 Changes

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

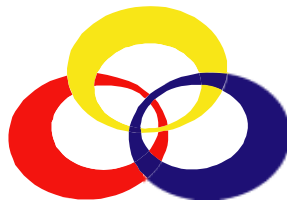
2015 Changes

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.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.



Kinner & Company Ltd
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Governing Board
Lac Qui Parle Soil and Water Conservation District
Madison, MN 56256

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the aggregate remaining fund information of the Lac Qui Parle Soil and Water Conservation District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Lac Qui Parle Soil and Water Conservation District's basic financial statements and have issued our report thereon dated July 9, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lac Qui Parle Soil and Water Conservation District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financials statements, but not for the purpose of expressing an opinion on the effectiveness of the Lac Qui Parle Soil and Water Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lac Qui Parle Soil and Water Conservation District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant* deficiency is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

212 3rd Street, Suite 1, Tracy, MN 56175
507-629-3662 or 800-858-5410, fax 507-629-3446
Visit our website at www.kinner.co

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lac Qui Parle 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*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested; contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except public indebtedness and tax increment financing because these provisions do not apply to the Lac qui Parle Soil and Water Conservation District.

In connection with our audit, nothing came to our attention that caused us to believe that Lac qui Parle Soil and Water Conservation District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 Lac qui Parle Soil and Water Conservation District's noncompliance with the above referenced provisions.

Purpose of 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.



Kinner & Company Ltd
Certified Public Accountants

July 9, 2018