

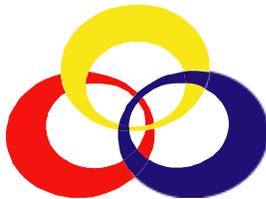
# FINANCIAL AUDIT REPORT FOR THE YEAR ENDED DECEMBER 31, 2016



## *Lac qui Parle Soil and Water Conservation District*

122 8<sup>th</sup> 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

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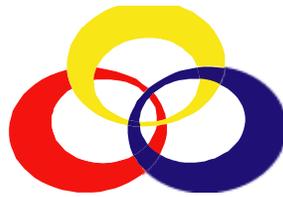
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**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT  
BOARD OF SUPERVISORS  
DECEMBER 31, 2016**

<u>Board of Supervisors</u>	<u>Position</u>
Ed Radermacher	Chairperson
Jeff Johnson	Vice-Chairperson
Tony Croatt	Secretary
Bob Ludvigson	Treasurer
Daryl Schutte	Reporter

District Manager

Terry Wittnebel



# **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, 2016, 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, 2016, 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.

## **Emphasis-of-Matter**

As described in Note 4. D to the financial statements, the opening balances have been restated to reflect the correction of a material misstatement in previously issued financial statements. Our opinion is not modified with respect to this matter.

## **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 June 1, 2017, 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.*

Kinner & Company Ltd  
Certified Public Accountants

June 1, 2017

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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, 2016. Since this information is designed to focus on the 2016 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 liabilities - 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, 2016**

**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.

<b>Table 1</b>	<b>Governmental Activities</b>	
<b>Statement of Net Position</b>	2016	2015
Current and Other Assets	363,666	249,162
Capital Assets Net of Depreciation	29,605	1,606
<b>Total Assets</b>	<b>393,271</b>	<b>250,768</b>
<b>Deferred Outflows</b>	<b>79,031</b>	<b>13,569</b>
Long-Term Liabilities Outstanding	181,265	108,832
Current Liabilities	175,834	112,402
<b>Total Liabilities</b>	<b>357,099</b>	<b>221,234</b>
<b>Deferred Inflows</b>	<b>18,200</b>	<b>12,010</b>
Net Position		
Net Investment in Capital Assets	29,605	1,606
Restricted	224,754	134,230
Unrestricted	(157,356)	(104,743)
<b>Total Net Position</b>	<b>97,003</b>	<b>31,093</b>

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**THE DISTRICT AS A WHOLE (continued)**

The net position of the District's governmental activities increased by \$65,910. 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 \$104,743 at December 31, 2015 to a deficit \$157,356 at the December 31, 2016. The deficit largely relates to the restricted balance for grants to be used for specific purposes.

**TABLE 2  
Changes in Net Position**

<b>Revenues</b>	Governmental Activities	
	2016	2015
Program Revenues:		
Charges for Service	33,676	37,228
Federal Grants	-0-	-0-
State Grants and Entitlements	178,363	83,376
County Grants and Entitlements	193,100	174,021
Other General Revenues	15,380	14,710
<b>TOTAL Revenues</b>	<b>420,519</b>	<b>309,335</b>
 <b>Expenses</b>		
Program Expenses:		
Conservation	354,609	276,171
<b>TOTAL Expenses</b>	<b>354,609</b>	<b>276,171</b>
<b>Change in Net Position</b>	<b>65,910</b>	<b>33,164</b>

The District's total revenues increased by \$111,187. The total cost of all programs and services increased by \$78,438 over the prior year. These large increases are due to additional grants received and spent during 2016.

**THE DISTRICT'S FUNDS**

As the District completed the year, its general fund as presented in the balance sheet reported a combined fund balance of \$187,832, which is an increase of \$51,072 above last year's total of \$136,760. The District received additional grants during 2016 which have not been spent in their entirety resulting in an increased fund balance.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**General Fund Budgetary Highlights**

The actual expenditures compared to appropriations were \$130,992 below the final budgeted amounts. Revenues were \$79,920 less than budgeted. Fluctuations are expected based on the needs of the consumers. The variance in personnel services is due to grant expenses covering a portion of the wages.

**CAPITAL ASSETS AND LONG TERM LIABILITIES**

**Capital Assets**

At the end of 2016, 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: two new laptops and a desktop computer, a John Deere Gator, enclosed trailer, a box scraper, shed improvements and a 2009 Chevrolet Tahoe.

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

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 1,000	\$ 1,000
Buildings and improvements	13,779	10,179
Equipment, Vehicles	<u>88,717</u>	<u>62,346</u>
<b>Total Assets</b>	<b><u>\$103,496</u></b>	<b><u>\$ 73,525</u></b>
(Net of Depreciation)	\$29,605	\$ 1,606

**Long-Term Liabilities**

At the end of 2016, the District had \$10,755 in accrued compensated absences and \$170,510 in Net Pension Liability. This compares to \$10,364 in 2015 for accrued compensated absences and \$98,468 for Net Pension Liability.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The SWCD's elected officials considered many factors when setting the fiscal-year 2017 budget. Some of the economic factors taken into account for the 2017 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, 2016**

**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 8<sup>th</sup> 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, 2016

	General Fund	Adjustments See Notes	Statement of Net Position
<b><u>Assets</u></b>			
Cash and Cash Equivalents	\$358,914		\$358,914
Interest Receivable	203		203
Prepays	1,282		1,282
Inventory	3,267		3,267
Capital Assets:			
Non-Depreciable		1,000	1,000
Depreciable, Net		28,605	28,605
<b>Total Assets</b>	<b>\$363,666</b>	<b>\$29,605</b>	<b>\$393,271</b>
<b>Deferred Outflows of Resources</b>			
Defined Benefit Pension Plan	0	79,031	79,031
<b>Combined Assets and Deferred Outflows of Resources</b>	<b>\$363,666</b>	<b>\$108,636</b>	<b>\$472,302</b>
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts Payable	\$17,072		\$17,072
Unearned revenue	158,762		\$158,762
Long-term liabilities:			
Net Pension Liability		170,510	170,510
Compensated Absences		10,755	10,755
<b>Total Liabilities</b>	<b>\$175,834</b>	<b>\$181,265</b>	<b>\$357,099</b>
<b>Deferred Inflows of Resources</b>			
Defined Benefit Pension Plan	0	18,200	18,200
<b>Combined Liabilities and Deferred Inflows of Resources</b>	<b>\$175,834</b>	<b>\$199,465</b>	<b>\$375,299</b>
<b><u>Fund Balance/Net Position</u></b>			
Fund Balance			
Nonspendable	\$4,549	(\$4,549)	\$0
Restricted	224,754	(224,754)	0
Unassigned	(41,471)	41,471	0
<b>Total Fund Balance</b>	<b>\$187,832</b>	<b>(\$187,832)</b>	<b>\$0</b>
Net Position			
Investments in capital assets		\$29,605	\$29,605
Restricted		\$224,754	\$224,754
Unrestricted		(157,356)	(157,356)
<b>Total Net Position</b>		<b>\$97,003</b>	<b>\$97,003</b>

Notes are an integral part of the basic financial statements.

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, 2016

	General Fund	Adjustments See Notes	Statement of Activities
<b>Revenues</b>			
Intergovernmental	\$370,776	\$687	\$371,463
Charges for services	33,676	0	33,676
Investment earnings	571	0	571
Miscellaneous	14,809	0	14,809
<b>Total Revenues</b>	<b><u>\$419,832</u></b>	<b><u>\$687</u></b>	<b><u>\$420,519</u></b>
<b>Expenditures/Expenses</b>			
Conservation			
Current	\$337,589	\$17,020	\$354,609
Capital outlay	31,171	(31,171)	0
<b>Total Expenditures/Expenses</b>	<b><u>\$368,760</u></b>	<b><u>(\$14,151)</u></b>	<b><u>\$354,609</u></b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures/Expenses</b>	<b>\$51,072</b>	<b>\$14,838</b>	<b>\$65,910</b>
<b>Fund Balance/Net Position January 1, as restated</b>	<u>136,760</u>	<u>(105,667)</u>	<u>31,093</u>
<b>Fund Balance/Net Position December 31</b>	<b><u><u>\$187,832</u></u></b>	<b><u><u>(\$90,829)</u></u></b>	<b><u><u>\$97,003</u></u></b>

Notes are an integral part of the basic financial statements.

LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT  
MADISON, MINNESOTA

BUDGETARY COMPARISON STATEMENT  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
<b>Revenues</b>				
<b>Intergovernmental</b>				
County	\$217,394	\$217,394	\$193,100	(\$24,294)
State grant	240,208	240,208	177,676	(62,532)
<b>Total intergovernmental</b>	<b>\$457,602</b>	<b>\$457,602</b>	<b>\$370,776</b>	<b>(\$86,826)</b>
<b>Charges for services</b>	<b>\$35,550</b>	<b>\$35,550</b>	<b>\$33,676</b>	<b>(\$1,874)</b>
<b>Miscellaneous</b>				
Interest earnings	\$600	\$600	\$571	(\$29)
Other	6,000	6,000	14,809	8,809
<b>Total miscellaneous</b>	<b>\$6,600</b>	<b>\$6,600</b>	<b>\$15,380</b>	<b>\$8,780</b>
<b>Total Revenues</b>	<b>\$499,752</b>	<b>\$499,752</b>	<b>\$419,832</b>	<b>(\$79,920)</b>
<b>Expenditures</b>				
<b>District operations</b>				
Personnel services	\$222,712	\$222,712	\$111,665	\$111,047
Other services and charges	25,680	25,680	46,558	(20,878)
Supplies	850	850	247	603
Capital outlay	36,500	36,500	27,571	8,929
<b>Total district operations</b>	<b>\$285,742</b>	<b>\$285,742</b>	<b>\$186,041</b>	<b>\$99,701</b>
<b>Project expenditures</b>				
District	\$22,750	\$22,750	\$16,255	\$6,495
State	85,402	85,402	128,604	(43,202)
County	105,858	105,858	37,860	67,998
<b>Total project expenditures</b>	<b>\$214,010</b>	<b>\$214,010</b>	<b>\$182,719</b>	<b>\$31,291</b>
<b>Total Expenditures</b>	<b>\$499,752</b>	<b>\$499,752</b>	<b>\$368,760</b>	<b>\$130,992</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$0</b>	<b>\$0</b>	<b>\$51,072</b>	<b>\$51,072</b>
<b>Fund Balance - January 1, as restated</b>	<b>\$136,760</b>	<b>\$136,760</b>	<b>\$136,760</b>	<b>\$0</b>
<b>Fund Balance - December 31</b>	<b>\$136,760</b>	<b>\$136,760</b>	<b>\$187,832</b>	<b>\$51,072</b>

Notes are an integral part of the basic financial statements.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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, 2016**

**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, 2016**

**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 Funds:

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, 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, 2016 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, 2016, inventory is \$3,267.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, 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.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

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. 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**

The Lac qui Parle Soil and Water Conservation District implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. 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 (revenue) 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. Deferred amounts relating to pensions represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Long term obligations as of December 31, 2016 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, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Vacation and Sick Leave**

Under the district's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 17 hours per month. Sick leave accrual is 13 days per year. The limit on the accumulation of annual leave is 240 hours and there is no limit on sick leave hours. When an employee accumulates over 800 hours of sick leave, at the end of the year they are compensated at current salary for one-fourth of those hours over 800. Upon termination from the District by retirement, employees are paid accrued vacation leave and up to one-fourth hours of accrued sick leave. All employees who retire or terminate their employment in good standing and who have been employed for one year shall be entitled to pay for all unused vacation and 25% of all unused sick leave at the rate of wage at time of separation. Severance pay shall be paid in a manner mutually agreeable to the employee and the employment. Severance pay will not be paid to the surviving spouse, dependents or estate upon death of employee. Payment may be withheld if the employee is in any way indebted to the District or in possession of District equipment or property.

**Compensated Absences Payable**

Changes in compensated absences payable for the year ended December 31, 2016 are:

Balance January 1, 2016	\$10,364
Increases in compensated absences	16,607
Decreases in compensated absences	<u>16,216</u>
Balance December 31, 2016	<u>\$10,755</u>

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, 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, 2016, 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, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, 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 \$687 during 2016 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, 2016**

**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, 2016.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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 \$367,105 at December 31, 2016, 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, 2016 was \$358,914.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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, 2016**

**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, 2016, 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, 2016**

**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, 2016 consists of:

Balance of BWSR 2017 Conservation Delivery Grant	\$ 10,901
Balance of BWSR 2017 Easement Delivery Grant	6,122
Balance of BWSR 2017 Buffer Law Grant	30,000
Balance of BWSR 2016 Buffer Law Grant	6,981
Balance of BWSR 2016 Local Capacity Grant	49,168
Balance of BWSR 2017 Cost-Share Grant:	20,521
Balance of BWSR 2016 Cost-Share Grant:	10,877
Balance of BWSR 2015 Cost-Share Grant:	4,188
Balance of 2017 County WCA Funds:	3,342
Balance of 2017 County Water Plan Funds:	13,562
Balance of 2016 County Water Plan Funds	<u>3,100</u>
<b>TOTAL OF ALL UNEARNED REVENUE:</b>	<b><u>\$ 158,762</u></b>

**Breakdown of County Appropriation from Lac qui Parle County:**

ANNUAL ALLOCATION	\$ 103,000
WATER PLAN MONEY	18,908
WCA	5,195
AIS	<u>65,997</u>
<b>TOTAL</b>	<b><u>\$ 193,100</u></b>

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 2016.
- **Water Plan Money** The figure above reflects money spent in 2016. Carry-over from 2015 (\$2,628); 2016 funds (\$14,389) a remainder of \$3,100 will be carried over to 2017. 2017 funds were received in October with \$1,891 spent, the remainder \$13,652 will be carried over to 2017.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. ACCOUNTS RECEIVABLE (Continued)**

- **Wetland Money** Carry-over 2015 funds of \$1,515 were spent in 2016; 2016 funds received in 2015 of \$3,511 were spent in 2016; 2017 funds were received in October which \$169 was spent in 2016 and \$3,342 will be carried over.
- **Aquatic Invasive Species funds** \$65,997 was received and considered earned in 2016.

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, 2016 is as follows:

	<u>Balance 1-1-16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12-31-16</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	<u>1,000</u>	<u>0</u>	<u>0</u>	<u>1,000</u>
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	10,179	3,600	0	13,779
Machinery and Equipment	<u>62,346</u>	<u>27,571</u>	<u>1,200</u>	<u>88,717</u>
Total Capital Assets Being Depreciated	<u>72,525</u>	<u>31,171</u>	<u>1,200</u>	<u>102,496</u>
Less Accumulated Depreciation for:				
Buildings	10,179	0	0	10,179
Machinery and Equipment	<u>61,740</u>	<u>3,173</u>	<u>1,200</u>	<u>63,713</u>
Total Accumulated Depreciation	<u>71,919</u>	<u>3,173</u>	<u>1,200</u>	<u>73,892</u>
Total Capital Assets Being Depreciated	<u>606</u>	<u>27,999</u>	<u>0</u>	<u>28,605</u>
	<u>1,606</u>	<u>27,999</u>	<u>0</u>	<u>29,605</u>

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**D. FUND BALANCE CLASSIFICATION**

At December 31, 2016, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>
Non-spendable:	
Inventories	\$3,267
Prepays	1,282
Restricted:	
Conservation Delivery	10,901
Easement Delivery	6,122
Buffer Law	36,981
Local Capacity	49,168
Cost-Share	35,586
WCA	3,342
County Water Plan	16,662
Aquatic Invasive Species Control	65,992
Unassigned	<u>(41,471)</u>
Total Fund Balances	<u><u>\$187,832</u></u>

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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, 2016, 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, 2016**

**NOTE 4. OTHER INFORMATION (Continued)**

**C. LEASE AGREEMENTS**

The District leases office space on a yearly basis. Under the current agreement, total costs for 2016 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.

**D. PRIOR PERIOD ADJUSTMENT**

There was a restatement to the opening balances during 2016 to correct an accounting error from 2015. \$21,828 of the Aquatic Invasive Species appropriation from the State was recorded as unearned revenue and should have been considered earned. As a result, beginning net position has been restated to reflect the changes as follows:

	<b>Fund Balance</b>	<b>Net Position</b>
Previously Reported 12/31/15	114,932	9,265
Correction of Accounting Error	21,828	21,828
12/31/15, as restated	136,760	31,093

**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, 2016**

**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 2015. The SWCD's contributions to the General Employees Fund for the year ended December 31, 2016, 2015 and 2014 were \$11,908, \$8,551, and \$7,877 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, 2016**

**NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)**

**C. PENSION COSTS**

**General Employees Fund Pension Costs**

At December 31, 2016, the SWCD reported a liability of \$170,510 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 2016. 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 \$2,303. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the SWCD's proportion was .0021%, an increase of .0002 from .0019% at June 30, 2015.

For the year ended December 31, 2016, the SWCD recognized pension expense of \$26,099 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$687 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, 2016, 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		\$ 13,503
Changes in Actuarial Assumptions	\$ 33,386	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	31,627	
Changes in Proportion	7,774	4,698
Employer Contributions Subsequent to the Measurement Date	6,245	
Totals	\$ 79,031	\$ 18,200

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)**

**C. PENSION COSTS (Continued)**

**1. GERS Pension Costs (Continued)**

\$6,245 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, 2017. 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>
2017	\$14,808
2018	\$14,808
2019	\$18,812
2020	\$6,159
2021	\$0
Thereafter	\$0

**D. ACTUARIAL ASSUMPTIONS**

The total pension liability in the June 30, 2016, 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 the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year study in the General Employees Plan was completed in 2015.

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)**

**D. ACTUARIAL ASSUMPTIONS (CONTINUED)**

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- 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.

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

**E. DISCOUNT RATE**

The discount rate used to measure the total pension liability in 2016 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, 2016**

**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:	\$242,174	\$170,510	\$111,477

**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](http://www.mnpera.org).

**NOTE 6. RECONCILIATION OF FUND BALANCE TO NET POSITION**

Governmental Fund Balance, January 1, restated	\$136,760
Plus: Excess of Revenue Over Expenditures	<u>51,072</u>
Governmental Fund Balance, December 31	<u>\$187,832</u>
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	\$29,605
Plus: Deferred Outflows of Resources	79,031
Less: Long-Term Liabilities	181,265
Less: Deferred Inflow of Resources	<u>18,200</u>
Net Position	<u>\$ 97,003</u>

**LAC QUI PARLE SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

Change in Fund Balance	\$ 51,072
Capital Outlay	31,171
Intergovernmental Revenue related to Pensions	687
Pension Expense, net	(13,456)
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level	(3,173)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.	<u>(391)</u>
Change in Net Position	<u>\$ 65,910</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Fiscal Year <u>Ending</u>	Statutorily Required <u>Contribution (a)</u>	Contributions in Relation to the Statutorily Required <u>Contribution (b)</u>	Contribution Deficiency <u>(Excess) (a-b)</u>	Covered- Employee <u>Payroll (d)</u>	Contributions as a Percentage of Covered-Employee <u>Payroll (b/d)</u>
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 <u>Ending</u>	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the <u>Total Pension Liability</u>
June 30, 2016	0.0021%	\$170,510	\$132,388	128.80%	68.90%
June 30, 2015	0.0019%	\$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, 2016**

**NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**General Employees Fund**

*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.

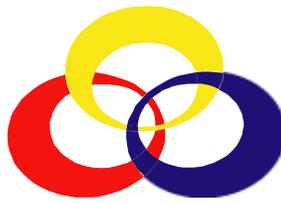
*2015 Changes*

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, 2016, 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 June 1, 2017.

**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 3<sup>rd</sup> Street, Suite 1, Tracy, MN 56175  
507-629-3662 or 800-858-5410, fax 507-629-3446  
Visit our website at [www.kinner.co](http://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

June 1, 2017