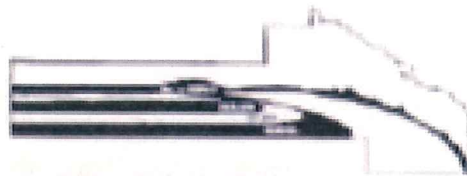


FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2017



YELLOW MEDICINE
SOIL AND WATER CONSERVATION DISTRICT



Kinner & Company Ltd
Certified Public Accountants
Taxes, QuickBooks & Investments

**YELLOW MEDICINE SOIL AND WATER
CONSERVATION DISTRICT
TABLE OF CONTENTS
DECEMBER 31, 2017**

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Board of Supervisors	1
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	2-3
Management's Discussion and Analysis (unaudited)	4-9
Basic Financial Statements:	
Statement of Net Position and Governmental Balance Sheet	10
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance	11
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13
Reconciliation of the Statement of Revenue, Expenditures, And Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
Notes to Basic Financial Statements	15-36
Schedule of Contributions	37
Schedule of Proportionate Share of Net Pension Liability	38
Notes to the Required Supplementary Information	39
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>	40-41
Schedule of Prior and Current Audit Findings and Responses	42

**YELLOW MEDICINE SOIL AND WATER
CONSERVATION DISTRICT
BOARD OF SUPERVISORS
DECEMBER 31, 2017**

Board of Supervisors

Position

Jerry Nelson

Chairperson

Darwyn Bach

Vice-Chairperson

Hollis Weber

Secretary

Delon Clarksean

Treasurer

Tom Remmele

Reporter

District Manager

Kurt Johnson



Kinner & Company Ltd
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Governing Board
Yellow Medicine Soil and Water Conservation District
Clarkfield, MN 56223

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Yellow Medicine 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 Yellow Medicine Soil and Water Conservation District 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 conformity 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, Schedule of District's Proportionate Share of Net Pension Liability, and Schedule of District's Contributions and notes to 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 an opinion on the financial statements that collectively comprise the 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 22, 2018, on our consideration of the Yellow Medicine 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 Yellow Medicine Soil and Water Conservation District's internal control over financial reporting and compliance.

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants
Tracy, Minnesota

June 22, 2018

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

The Yellow Medicine Soil and Water Conservation District's (SWCD) discussion and analysis provides an overview of the SWCD's financial activities for the fiscal year ended December 31, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the SWCD's Financial Statements and Notes to the Financial Statements following this section.

FINANCIAL HIGHLIGHTS

The SWCD's fund balance on the Governmental Revenues, Expenditures and Changes in Fund Balance increased due to the revenues exceeding the expenditures.

USING THIS ANNUAL REPORT

This annual report consists of three main parts: The Management's Discussion and Analysis (this section), the Basic Financial Statements and the Required Supplementary Information.

- Management's Discussion and Analysis (MDA-this section). This section relates mostly to the changes in the SWCD's finances and explains the Governmental Wide-Financial Statements in detail.
- Basic Financial Statements:
 - The Statement of Net Position and the Statement of Activities
 - Provide information about the Yellow Medicine SWCD as a whole and present a longer-term view of the District's finances.
 - Fund Financial Statements
 - Tell how governmental activities were financed as well as what remains for future spending.
 - Report the Yellow Medicine SWCD operations in more detail than the government-wide statements by providing information about the most significant fund.
 - Since Soil and Water Conservation Districts are single-purpose special-purpose governments, they are generally able to combine the government-wide and fund financial statements into single presentation. The Yellow Medicine SWCD has elected to present in this format.
 - Notes to the Financial Statements
 - Help explain specific line items in the Basic Financial Statements and demonstrates a comprehensive evaluation of the District's financial state.
 - Give brief or detailed explanations on how the financial numbers were derived.
- Required Supplementary Information. This section contains additional information related to GASB Statement No. 68 for Pensions.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The analysis of the Yellow Medicine Soil and Water Conservation District as a whole begins with page 6. One of the most important questions asked about the SWCD's finances is, "Is the SWCD 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 SWCD 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, deferred outflows of resources, liabilities, and deferred inflows - 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.

REPORTING THE SWCD'S GENERAL FUND:

Fund Financial Statements

The fund financial statements begin on page 9 and provide detailed information about the general fund—not the SWCD as a whole. The SWCD presents only a general fund, which is a governmental fund. All of the SWCD'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 SWCD's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the SWCD's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation included with the financial statements.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

THE SWCD AS A WHOLE – GOVERNMENTAL ACTIVITIES

Statement of Net Position and Governmental Fund Balance

The Yellow Medicine Soil and Water Conservation District's net position increased from one year ago. The analysis below focuses on the net position (Table 1) of the SWCD's governmental activities.

Table 1

Net Position	Governmental Activities	
	2017	2016
Current and other assets	\$758,933	\$470,360
Capital assets	52,668	66,357
Total assets	<u>811,601</u>	<u>536,717</u>
Deferred Outflows	<u>101,333</u>	<u>89,024</u>
Long-term liabilities outstanding	210,294	235,094
Other liabilities	362,785	144,309
Total liabilities	<u>573,079</u>	<u>379,403</u>
Deferred Inflows	<u>68,203</u>	<u>13,591</u>
Net position		
Investment in capital assets	52,668	66,357
Restricted	419,812	145,185
Unrestricted	<u>(200,828)</u>	<u>21,206</u>
Total Net Position	<u>\$271,652</u>	<u>\$232,748</u>

The net position for the SWCD's governmental activities increased by approximately 17 percent from \$232,748 in 2016 compared to \$271,652 in 2017. 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 \$21,206 at December 31, 2016 to a deficit balance of \$200,828 at December 31, 2017. Much of this deficit was caused by a large restricted funds balance (grant funds assigned to a specific purpose), created by a large unearned revenue balance. These unspent grant funds (unearned revenue) and will be recognized when spent in to 2018.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

Statement of Activities

Table 2 reflects changes in Governmental activities of the SWCD.

Table 2

Condensed Statement of Activities	Balance 2017	Balance 2016
Revenue:		
Program Revenues:		
Charges for Services	\$59,669	\$66,417
Operating Grants and Contributions	413,831	402,385
General Revenues:		
Interest	1,630	1,033
Other Miscellaneous Revenue	7,596	4,746
Total Revenues	<u>482,725</u>	<u>474,581</u>
Expenses:		
Conservation	<u>443,821</u>	<u>475,500</u>
Total Expenses	<u>443,821</u>	<u>475,500</u>
Increase (Decrease) in Net Position	38,904	(919)
Net Position, January 1	<u>232,748</u>	<u>233,667</u>
Net Position, December 31	<u><u>\$271,652</u></u>	<u><u>\$232,748</u></u>

Changes in revenues/expenses from the previous year included:

- Charges for Services decreased by approximately 10%.
- Expenses also decreased by approximately 7%.
- Operating Grants and Contributions increased by approximately 3%.

THE SWCD'S GENERAL FUND

As the SWCD completed the year, its general fund reported a total fund balance of \$396,148 which is \$70,096 more than last year's total of \$326,051.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

GENERAL FUND BUDGETARY HIGHLIGHTS

The SWCD budget was amended quarterly in 2017. The Budgetary Comparison Statement is found on page 12. While most expenditures were fairly comparable to budgeted amounts, income was budgeted higher than monies shown as actually earned. This came about when money actually deposited in 2017 became part of the unearned income adjustment and will be recognized as spent in 2018. Revenues were \$110,795 under budget while expenditures were 45,814 under budget.

CAPITAL ASSETS

The SWCD's capital asset threshold is \$5,000. At the end of 2017 the SWCD had \$52,668 invested in capital assets, net of depreciation. This includes buildings, land, vehicles, equipment and machinery. See chart below.

**Table 3
Capital Assets at Year-end**

Governmental Activities	Balance <u>Dec. 31, 2017</u>	Balance <u>Dec.31, 2016</u>
Assets		
Land	\$ 4,689	\$ 4,689
Building	51,627	51,627
Vehicles	62,100	62,100
Equipment/Machinery	<u>47,075</u>	<u>49,665</u>
Total Assets	<u>165,491</u>	<u>168,081</u>
(Net of Depreciation)	\$ 52,668	\$ 66,358

More detailed information about the SWCD's capital assets can be found on page 29 of the notes to the financial statements.

LONG-TERM LIABILITIES

Long-term liability obligations include accrued vacation and sick leave for which employees are paid upon termination from the SWCD and net pension liability. Detailed information about the SWCD's long-term liabilities is presented in the Note 1D to the financial statement.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report was designed to provide our citizens, taxpayers, customers, 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 questions about this report or need additional financial information, contact the Yellow Medicine Soil and Water Conservation District, P.O. Box 545, 1000 10th Avenue, Suite 3, Clarkfield, Minnesota 56223 or call 320-669-4442 Ext. 3.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
CLARKFIELD, MINNESOTA**

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

	General Fund	Adjustments-See Reconciliation	Statement of Net Position
<u>Assets</u>			
Cash and Cash Equivalents	\$ 697,060	\$ 0	\$ 697,060
Interest Receivable	610	0	610
Due from Other Governments	56,050	0	56,050
Inventory	5,213	0	5,213
Capital Assets:			
Non-depreciable	0	4,689	4,689
Depreciable, Net	0	47,979	47,979
Total Assets	758,933	52,668	811,601
Deferred Outflows of Resources			
Defined Benefit Pension Plan	0	101,333	101,333
Combined Assets & Deferred Outflows of Resources	758,933	154,001	912,934
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	7,125	0	7,125
Due To Other Governments	324	0	324
Unearned Revenue	355,336	0	355,336
Long-term Liabilities:			
Net Pension Liability	0	197,902	197,902
Compensated Absences	0	12,392	12,392
Total Liabilities	362,785	210,294	573,079
Deferred Inflows of Resources			
Defined Benefit Pension Plan	0	68,203	68,203
Combined Liabilities & Deferred Inflows of Resources	362,785	278,497	641,282
<u>Fund Balance/Net Position</u>			
Fund Balance			
Nonspendable	5,213	(5,213)	0
Restricted	419,812	(419,812)	0
Unassigned	(28,877)	28,877	0
Total Fund Balance	396,148	(396,148)	0
Total Liabilities and Fund Balance	\$ 758,933		
Net Position			
Investments in Capital Assets		52,668	52,668
Restricted		419,812	419,812
Unrestricted		(200,828)	(200,828)
Total Net Position		271,652	271,652
Total Liabilities, Deferred Inflows of Resources and Net Position		\$ 154,001	\$ 912,934

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
CLARKFIELD, MN**

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

	General Fund	Adjustments-See Reconciliation	Statement of Activities
Revenues			
Intergovernmental	\$ 413,831	\$ 0	\$ 413,831
Charges for Services	59,669	0	59,669
Investment Earnings	1,630	0	1,630
Miscellaneous	7,524	72	7,596
Total Revenues	482,653	72	482,725
Expenditures/Expenses			
Conservation			
Current	412,556	31,265	443,821
Capital Outlay	0	0	0
Total Expenditures/Expenses	412,556	31,265	443,821
Net Change in Fund Balance	70,097	(31,193)	38,904
Fund Balance/Net Position January 1	326,051	(93,303)	232,748
Fund Balance/Net Position December 31	\$ 396,148	\$ (124,496)	\$ 271,652

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
CLARKFIELD, MN**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues				
Intergovernmental				
County	\$ 169,176	\$ 178,791	\$ 166,090	\$ (12,701)
Local	300	7,800	7,212	(588)
State Grants	263,165	338,035	240,529	(97,506)
Total Intergovernmental	432,641	524,626	413,831	(110,795)
Charges for Services	43,550	59,648	59,669	21
Miscellaneous				
Interest Earnings	500	800	1,630	830
Other	2,000	2,901	7,524	4,623
Total Miscellaneous	2,500	3,701	9,154	5,453
Total Revenues	478,691	587,975	482,653	(105,322)
Expenditures				
District Operations				
Personnel Services	320,559	303,743	298,861	4,882
Other Services and Charges	53,393	51,439	45,529	5,910
Supplies	10,000	18,500	11,412	7,088
Capital Outlay	35,000	2,743	0	2,743
Total District Operations	418,952	376,425	355,802	20,623
Project Expenditures				
District	21,550	42,901	40,807	2,094
State	38,189	39,044	15,948	23,096
Total Project Expenditures	59,739	81,945	56,754	25,191
Total Expenditures	478,691	458,370	412,556	45,814
Net Change in Fund Balance	0	129,605	70,097	(59,508)
Fund Balance - January 1	326,051	326,051	326,051	0
Fund Balance - December 31	\$ 326,051	\$ 455,656	\$ 396,148	\$ (59,508)

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

**RECONCILIATION OF GOVERNMENT FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
WITH STATEMENT OF ACTIVITIES
DECEMBER 31, 2017**

Total Net Changes in Fund Balances- Governmental Funds	\$	70,097
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.		0
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements.		(13,690)
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds		(4,644)
In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as element of pension expense. The fund financial statements report pension contributions as expenditures.		
Pension Expense, net		(12,931)
Direct Aid Contribution		72
Change in net position of government activities	\$	<u>38,904</u>

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balance – Total Governmental Funds	\$	396,148
Capital assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expenses when acquired in the Statement of Revenues, Expenditures and Changes in Fund Balance.		52,668
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as a liability on the Statement of Net Position.		(12,392)
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(197,902)
Pension related deferred inflows are not due and payable in the current financial resources, and therefore are not reported in funds.		(68,203)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		101,333
Net Position of Governmental Activities	\$	<u>271,652</u>

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The SWCD'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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 20, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

The SWCD adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

A. REPORTING ENTITY

The Yellow Medicine Soil and Water Conservation District (SWCD) was organized under the provisions of *Minnesota Statutes* Chapter 103C. The SWCD is governed by a five member Board composed of one member from each of the participating soil and water conservation districts, elected to four-year terms by the voters of the County.

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

The SWCD in cooperation with the U.S. Department of Agriculture's Natural Resources 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 SWCD 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 SWCD's objectives.

The SWCD is not considered a part of Yellow Medicine County because, even though the county provides a significant amount of the SWCD's revenue in the form of an appropriation, it does not retain any control over the operations of the SWCD.

Accounting principles generally accepted in the United States of America 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 SWCD does not have any component units.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE 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 the statement of activities) report information on all of the activities of the SWCD. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* (of which, the SWCD 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 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 SWCD 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, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

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

The emphasis in fund financial statements is on major funds in the governmental activities categories. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The funds of the financial reporting entity are described below.

Governmental Funds:

General Fund - The general fund is the primary operating fund of the SWCD 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 SWCD's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Deposits and Investments

For the purposes of the statement of cash flows, the SWCD considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments are carried at fair value, based on quoted market price at the reporting date. There are no investments as of December 31, 2017.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories

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 SWCD has therefore chosen to report these items as inventory this year. The value of inventory as of December 31, 2017 was \$5,213.

Receivables

Due from other governments includes amounts for shared projects or grants.

Unearned Revenue

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

Prepays

There were no prepaids as of December 31, 2017.

Capital Assets

Capital assets are defined by the SWCD as assets with an initial individual cost of \$5,000 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 SWCD 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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 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

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.

Liabilities

Long-term liabilities, such as compensated absences, are accounted for in the governmental activities column on the financial statements.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Vacation and Sick Leave and Compensated Absences

Annual Leave: Will be granted to all regular employees on the basis of length of service. Annual leave is earned per month in the following manner:

0 - 5 years	8 hours per month - January through November, 16 hours for December
6 - 15 years	13 hours per month - January through November, 17 hours for December
16 + years	17 hours per month - January through November, 21 hours for December

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 New Year (January) is 240 hours. Annual leave in excess of the limitation by the end of the year will be lost, unless the board makes an exception for special reasons. Annual leave is charged in units of one half or more hours. As an employee, you are expected to plan your vacations as far in advance as possible. If an employee wishes to take more than two weeks straight of annual leave, then he or she must have board approval prior to taking the vacation. Orientation employees will earn annual leave, but use will be restricted until the end of the orientation period. For the purpose of accruing annual leave employees starting employment before the 15th of the month shall be considered to have started on the first of the month and employees starting on the 15th of the month or after, shall be considered to have started on the first of the next month. Annual leave will be pro-rated for eligible part-time employees. After serving the 6 month orientation period, part-time employees without benefits may take up to 3 days of annual leave with pay per calendar year. The 3 days per calendar year cannot be carried over into the next year. Annual leave will be taken in ½ hour increments.

Sick Leave: Will be granted to all regular employees. Sick leave will be accumulated at the rate of eight (8) hours per month, except December in which sixteen (16) hours are earned. Sick leave will be pro-rated for regular part-time employees. There will be no limit on the accumulation of sick leave.

Severance Pay upon Termination or Resignation

All employees upon leaving employment in good standing, prior to the normal retirement date or whose employment is terminated shall be entitled to severance pay. Severance pay shall include the payment of accumulated vacation leave at the current rate of wage at separation not to exceed an amount as follows:

Less than 1 year	= Not eligible
Completion of 1 year	= 80 hours
Completion of 2 years	= 160 hours
Completion of 3 years or more	= 240 hours

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Vacation and Sick Leave and Compensated Absences (Continued)

Severance Pay upon Retirement

All employees upon leaving employment in good standing on or subsequent to the normal retirement date shall be entitled to severance pay. The normal retirement date is defined under PERA and/or Social Security and to be eligible the employee must have a minimum of 10 years of continued years of service for the SWCD. Severance pay shall include the payment of accumulated vacation leave, accumulated sick leave or a combination thereof at the current rate of wage at separation not to exceed 800 hours. Severance pay shall be paid in a manner mutually agreeable to the employee and employer over a period not to exceed five years from retirement or termination of employment. In the event that a retired or terminated employee dies before all or a portion of the severance pay has been disbursed, that balance due shall be paid to a named beneficiary or, lacking same, to the deceased estate. Severance pay may be paid into the employee's VEBA Account.

Fund Balance Classifications

The SWCD 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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Balance Classifications (Continued)

- Committed fund balance – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the SWCD Board. To be reported as committed, amounts cannot be used for any other purpose unless the SWCD Board 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 SWCD 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 SWCD uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the SWCD would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The SWCD has formally adopted a fund balance policy for the General Fund. The SWCD's policy is to maintain a minimum unassigned fund balance between the ranges 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.

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:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- 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 - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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.

F. 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 SWCD for the General Fund. The SWCD made quarterly amendments to their budget in 2017.

Encumbrances: The SWCD does not utilize encumbrance accounting.

B. FUND BALANCE CLASSIFICATION

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

Nonspendable	\$5,213
Assigned	419,812
Unassigned	<u>(28,877)</u>
Total Fund Balances	<u><u>\$396,148</u></u>

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The SWCD maintains a pooled cash and investment portfolio that is used by substantially all SWCD funds using the pooled deposit and investment concept. This concept provides the SWCD 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 SWCD.

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 SWCD maintains deposits at those depository banks authorized by the SWCD, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all SWCD 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 SWCD does not have any deposit policies that would further limit deposit choices.

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk- Deposits - Custodial credit risk is the risk that in the event of a bank failure, the SWCD'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 \$724,389 at December 31, 2017, that was fully insured by depository insurance or secured with collateral held by the SWCD's agent in its name. The carrying amount of these deposits at December 31, 2017 was \$697,060.

Investment Policy

The SWCD 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 SWCD's pooled cash and investment portfolio. This policy sets for the SWCD'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 SWCD'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 issuers or debt service funds in accordance with arbitrage rebate requirements.

The SWCD 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. Banker's 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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

- h. Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United States insurance company and with a credit quality in one of the top two highest categories.

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

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 SWCD's investment policy the SWCD 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 SWCD 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 is made to coincide as nearly as practicable with expected use of funds.

As of December 31, 2017, the SWCD had no investments.

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 SWCD 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 SWCD's investment in a single issuer. The SWCD places no limit on the amount that may be invested in any one issuer.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

For an investment, this is the risk that in the event of the failure of the counterparty, the SWCD 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 deposits were insured or registered or the securities were held by the SWCD or its agent in the SWCD's name.

The following table represents the SWCD's cash balances as of December 31, 2017:

<u>Cash/Cash Equivalent Type</u>	<u>Average Maturities</u>	<u>% of Total</u>	<u>Fair Value</u>
Checking Account	N/A	54%	\$378,447
Savings Account	N/A	14%	96,784
Certificates of Deposit	N/A	32%	<u>221,829</u>
Total Cash		100%	<u>\$697,060</u>

A reconciliation of cash and certificates of deposits as shown on the Statements of Net Position at December 31, 2017:

Statement of Net Position	
Current Assets:	
Cash and Cash Equivalents	<u>\$697,060</u>
Total	<u>\$697,060</u>

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 report unearned revenue in connection with resources that have been received, but not yet earned.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

B. ACCOUNTS RECEIVABLE (Continued)

Unearned Revenue

Unearned Revenue represents the unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) and county grants. Revenues will be recognized when the related program expenditures are recognized. Unearned revenue for the year ended December 31, 2017, consists of:

Balance of BWSR 2017 Easement Delivery Grant:	\$	3,700
Balance of BWSR 2018 Buffer Cost Share:		60,000
Balance of BWSR 2018 Conservation Delivery:		19,263
Balance of BWSR Buffer Grant -		
Fiscal Year 2017:		27,544
Fiscal Year 2018:		35,000
Balance of BWSR SWCD Local Capacity Services -		
Fiscal Year 2017:		36,827
Fiscal Year 2018:		100,000
Balance of unencumbered BWSR Cost Share Grants -		
Fiscal Year 2016:		8,420
Fiscal Year 2017:		6,252
Fiscal Year 2018:		17,060
Balance of County 2018 WCA Funds:		7,120
<i>Other funds being deferred:</i>		
Balance of AWQCP Grant		6,000
FY2018 Easement MJPA		10,150
FY2018 Local Capacity Local Match (County)		<u>18,000</u>
TOTAL OF ALL UNEARNED REVENUE:	\$	<u>355,336</u>

Breakdown of Appropriation from Yellow Medicine County:

ANNUAL ALLOCATION	\$112,398
WETLAND MONEY	12,236
OTHER - AIS Grant	<u>41,456</u>
TOTAL	<u>\$166,090</u>

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

C. CHANGES IN CAPITAL ASSETS

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

Governmental Activities	Balance <u>1-1-17</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-17</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4,689	\$ -	\$ -	\$ 4,689
Total Capital Assets Not Being Depreciated	<u>4,689</u>			<u>4,689</u>
Capital Assets Being Depreciated:				
Buildings	51,627	-	-	51,627
Machinery & Equipment	49,665	-	2,590	47,075
Vehicles	62,100	-	-	62,100
Total Capital Assets Being Depreciated	<u>163,392</u>	<u>-</u>	<u>2,590</u>	<u>160,802</u>
Total Capital Assets	<u>168,081</u>	<u>-</u>	<u>2,590</u>	<u>165,491</u>
Less Assets Being Depreciated for:				
Buildings	27,261	1,624	-	28,885
Machinery & Equipment	38,842	2,806	2,590	39,058
Vehicles	35,620	9,260	-	44,880
Total Accumulated Depreciation	<u>101,723</u>	<u>13,690</u>	<u>2,590</u>	<u>112,823</u>
Total Capital Assets Being Depreciated, Net	\$ 66,358			\$ 52,668

D. ACCOUNTS PAYABLE:

Payables in the general, major governmental funds are composed almost entirely of payable to vendors.

E. LONG-TERM LIABILITIES

Changes in long-term liabilities during the year were as follows:

	<u>12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/17</u>
Compensated Absences	7,747	15,985	11,340	12,392
Net Pension Liability	227,346	54,250	83,694	197,902

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4. OTHER INFORMATION

A. RISK MANAGEMENT

The SWCD 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 SWCD participates in the Minnesota Counties Intergovernmental Trust to provide its general liability and property coverage. The Minnesota County Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for participating Minnesota counties.

Participants of 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 SWCD 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 SWCD did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The SWCD 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 SWCD 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 SWCD is a 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 a potential litigation cannot be predicted, due to the insurance coverage maintained by the SWCD, the SWCD feels that the settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the SWCD.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4. OTHER INFORMATION (Continued)

C. OPERATING LEASES

The SWCD has a rental lease agreement for their tree storage building. The lease was written March 1st, 2001 and runs for 20 years. The rental fee is \$200 per year.

NOTE 5. DEFINED BENEFIT PENSION PLANS

A. PLAN DESCRIPTION

The SWCD participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

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.

Benefits Provided (Continued)

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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

A. Plan Description (Continued)

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 Contribution

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 2017. 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, 2015 and 2014 were \$15,399, \$15,296, and \$11,188, respectively. The SWCD's contributions were equal to the required contributions as set by state statute.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE 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 \$129,563 for its proportionate share of the GERP's net pension liability. The SWCD'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. The State of Minnesota's proportionate share of the net pension liability associated with the SWCD totaled \$2,502. 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 .0031%, an increase of .0003% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017 the SWCD recognized pension expense of \$8,542 for its proportionate share of the General Employees Plan's pension expense. In addition, the SWCD recognized an additional \$72 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	\$ 6,522	\$ 11,238
Changes in Actuarial Assumptions	29,677	19,840
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	2,833
Changes in Proportion	26,043	3,523
Employer Contributions Subsequent to the Measurement Date	<u>8,321</u>	<u>0</u>
Totals	\$ <u>70,563</u>	\$ <u>37,434</u>

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

C. Pension Costs (continued)

General Employees Fund Pension Costs (Continued)

\$8,321 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 Amount</u>
2018	\$13,023
2019	\$18,723
2020	\$1,462
2021	(\$8,401)

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 males or females, as appropriate, with slight adjustments. 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.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- 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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

D. Actuarial Assumptions (Continued)

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%	0.75%
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.

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%)
SWCD proportionate share of the General Employees Fund net pension liability:	\$306,691	\$197,902	\$108,618

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

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. DEFINED CONTRIBUTION PLAN

Two SWCD Board members are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees' contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.0025) of the assets in each member's account annually.

Total contributions made by the SWCD during fiscal year 2017 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$144	\$144	5%	5%	5%

YELLOW MEDICINE SWCD
 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, 2017	15,399	15,399	-	205,320	7.50%
December 31, 2016	15,296	15,296	-	203,951	7.50%
December 31, 2015	11,188	11,188	-	149,175	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".

YELLOW MEDICINE SWCD
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
 PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	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
						99.81%	132.15%	
June 30, 2017	0.0031%	197,902	2,502	200,404	200,777	99.81%	75.90%	
June 30, 2016	0.0028%	227,346	2,931	230,277	174,250	132.15%	68.90%	
June 30, 2015	0.0025%	129,563	-	129,563	144,591	89.61%	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'.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE 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.

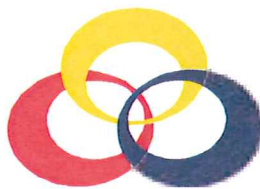
2015 Changes

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
Yellow Medicine Soil and Water Conservation District
Clarkfield, MN 56223

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 general fund of the Yellow Medicine 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 Yellow Medicine Soil and Water Conservation District, Minnesota's basic financial statements and have issued our report thereon dated June 22, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Yellow Medicine Soil and Water Conservation District, Minnesota'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Yellow Medicine Soil and Water Conservation District, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Yellow Medicine Soil and Water Conservation District, Minnesota'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. We consider the deficiency described in the accompanying Schedule of Prior and Current Findings and Responses, as item 2017-1, to be a material weakness.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Prior and Current Findings and Responses, we identified a deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Yellow Medicine Soil and Water Conservation District, Minnesota'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*.

Yellow Medicine Soil and Water Conservation District, Minnesota's Response to Findings

Yellow Medicine Soil and Water Conservation District, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of prior and current findings and responses. Yellow Medicine Soil and Water Conservation District, Minnesota response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Yellow Medicine Soil and Water Conservation District.

In connection with our audit, nothing came to our attention that caused us to believe that Yellow Medicine 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 Yellow Medicine 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants

June 22, 2018

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF PRIOR AND CURRENT AUDIT
FINDINGS AND RESPSONSES
DECEMBER 31, 2017**

CURRENT YEAR FINDINGS

2017-1 Finding: Segregation of Duties

Condition: The District has limited personnel available to perform accounting duties.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

Cause: The District has a limited number of accounting personnel.

Effect of Condition: As a result of lack of segregation personnel are performing duties which, for internal control purposes, should be performed by a separate individual.

Recommendation: This is not unusual in Districts of this size. The District's board should be aware of this condition and monitor duties of District personnel.

Response: We concur with the recommendation. The District's board will monitor duties.

STATUS OF PRIOR AUDIT FINDINGS

Finding 2015-1: A material weakness was reported due to the lack of segregation of duties within the organization. This finding continues to exist and has been restated as Finding 2017-1.