



YELLOW MEDICINE
SOIL & WATER CONSERVATION DISTRICT

2016 ANNUAL FINANCIAL REPORT

OF THE YELLOW MEDICINE
SOIL & WATER CONSERVATION DISTRICT

**1000 10th Avenue, Suite 3
Clarkfield, MN 56223**

For the year ended December 31, 2016

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2016
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**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

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, 2016. 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 decreased due to the expenditures exceeding the revenues.

USING THIS ANNUAL REPORT

This annual report consists of three main topics: 1) The Management's Discussion and Analysis (MDA); 2) Financial Statements and Reconciliation Statements; and 3) Notes to the Financial Statement. These topics are further explained as follows:

- 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.
- Financial Statements – pages 6-12.
The Governmental Wide-Financial Statements include a series of financial statements that provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

The Fund Financial Statements report the Breakdown of County Revenue and the Unearned Revenue Breakdown of the SWCD.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities explains the differences in the two statements.

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position explains the differences in these two statements.

- The Notes to the Financial Statement provides information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes provide information such as: 1) Summary of Significant Accounting Policies; 2) Stewardship, Compliance and Accountability; 3) Detail Notes on All Funds; 4) Other Information; 5) Defined Benefit Pension Plans; 6) Defined Contribution Plan. The Notes to the Financial Statement are on pages 14-33.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Our 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. You 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. You will need to consider other non-financial factors 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

Our analysis of the District's general fund is a part of this report. The fund financial statements provide detailed information about the general fund-not the District as a whole. District 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 those funds 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Activities and the Statement of Net Position) and governmental funds through the reconciliation of these statements, which are on pages 11 and 12 (after the Fund Financial Statements).

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

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 decreased from one year ago. Our analysis below focuses on the net position (Table 1) of the SWCD's governmental activities.

Table 1

<u>Statement of Net Position</u> <u>Government Activities</u>	<u>Balance</u> <u>Dec.31, 2016</u>	<u>Balance</u> <u>Dec 31, 2015</u>
Current and other Assets	\$ 470,360	\$ 482,318
Capital Assets	\$ 66,357	\$ 38,757
Total Assets	<u>\$ 536,717</u>	<u>\$ 521,075</u>
 Deferred Outflows of Resources		
Defined Benefit Pension Plan	\$ 89,024	\$ 18,043
 Long-term Liabilities Outstanding	\$ 144,305	\$ 160,438
Other liabilities		
Sales tax payable	\$ 4	
Net pension liability	\$ 227,346	\$ 97,036
Compensated Absences	\$ 7,748	\$ 30,875
Total liabilities	<u>\$ 379,403</u>	<u>\$ 288,349</u>
 Deferred Inflows of Resources		
Defined Benefit Pension Plan	\$ 13,591	\$ 17,101
 Net Position		
Investment in Capital Assets	\$ 66,357	\$ 38,757
Restricted	\$ 145,185	\$ 136,004
Unrestricted	<u>\$ 21,206</u>	<u>\$ 58,906</u>
 Total Net Position	 <u>\$ 232,748</u>	 <u>\$ 233,667</u>

The net position for the SWCD's governmental activities decreased by approximately .004 percent from \$233,667 in 2015 compared to \$232,748 in 2016. 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 \$58,906 at December 31, 2015 to \$21,206 at December 31, 2016.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

Statement of Activities

Table 2 reflects changes in Governmental activities of the SWCD. It also reflects some of the actual SWCD's Charges for Services changes from 2015 to 2016.

Table 2

Change in Net Position		<u>Balance Dec. 31, 2016</u>		<u>Balance Dec. 31, 2015</u>
<u>Condensed Statement of Activities</u>				
<u>Revenue:</u>				
Program Revenues				
Charges for Services	\$	66,417	\$	52,621
Operating Grants and Contributions	\$	402,385	\$	380,488
General Revenues:				
Interest	\$	1,033	\$	810
Other Miscellaneous Revenue	\$	4,746	\$	2,403
Total Revenues	\$	<u>474,581</u>	\$	<u>436,322</u>
 <u>Expenditures:</u>				
Conservation	\$	<u>475,500</u>	\$	<u>366,421</u>
Total Expenditures	\$	<u>475,500</u>	\$	<u>366,421</u>
Increase (Decrease) in Net Position	\$	(919)	\$	69,901

Changes in revenues/expenditures from the previous year included:

- Charges for Services increased by approximately 26% due to an increase in tree and tree mat sales.
- Operating Grants and Contributions increased by approximately 6% mainly due to the addition of the Buffer Implementation Grant and Local Capacity Grant.
- Expenditures increased by approximately 30%. This was in part due to the spending of the AIS appropriation relating to equipment purchases and education and outreach. In addition, personnel services increased with the addition of a full-time staff person in February; a .6 position increased to .8 time in September; and retirement severance was paid out in December. Expenditures also increased on inventory for tree and tree mat supplies in proportion to the increase in sales in these areas.

THE SWCD'S FUNDS

As the SWCD completed the year, its general fund, as presented in the Governmental Fund Balance Sheet on page 8, reported a total fund balance of \$326,051 which is \$28,355 less than last year's total of \$354,406.

GENERAL FUND BUDGETARY HIGHLIGHTS

The SWCD budget was revised in April, 2016. The Budgetary Comparison Schedule is found on page 9. The SWCD received State general fund dollars for Aquatic Invasive Species (AIS) Prevention & Control, which passed through Yellow Medicine County. The actual revenues were higher than the April calculations mostly due to an underestimate of AIS appropriations received under county intergovernmental revenues and tree and mat sales greater than anticipated. The three greatest factors increasing expenditures beyond budget were the unanticipated retirement of the District manager leading to an increase in administrative assistant hours and benefits and retirement severance pay out; an increase in tree and mat inventory purchases to accommodate increased sales; and an increase in education and promotional spending related to the AIS appropriation.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

In 2016 the SWCD used the following schedules:

- Guide to Capital Assets
- Schedule of General Capital Assets and Changes for 2016
- Summary of Changes in Capital Assets

The SWCD's capital asset threshold is \$5,000. The Schedules of General Capital Assets and the Summary of Changes in General Capital Assets consists of capital assets over the threshold of \$5,000. At the end of 2016 the SWCD had \$168,081 invested in capital assets, including buildings, land, vehicles, equipment and machinery. See chart below.

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

Governmental Activities	<u>Balance Dec. 31, 2016</u>	<u>Balance Dec.31, 2015</u>
Assets		
Land	\$ 4,689	\$ 4,689
Building	\$ 51,627	\$ 51,627
Vehicles	\$ 62,100	\$ 50,900
Equipment/Machinery	\$ 49,665	\$ 36,637
Total Assets	\$ <u>168,081</u>	\$ <u>143,853</u>
(Net of Depreciation)	\$ 66,358	\$ 38,757

At the end of 2016, the SWCD had \$168,081 invested in capital assets. This amount represents a net increase (including additions and deletions) of \$24,228 from last year.

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 1E to the financial statement.

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, MN 56223
DECEMBER 31, 2016**

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Adjustments See Notes	Statement of Net Position
<u>Assets</u>			
Cash and Investments	\$ 417,910	\$	\$ 417,910
Accounts receivable	73		73
Interest receivable	546		546
Due from other governments	51,050		51,050
Inventory	781		781
Total Assets	470,360		470,360
<i>Noncurrent assets</i>			
Non-depreciable		4,689	4,689
Depreciable		163,390	163,390
Accumulated depreciation		101,722	101,722
TOTAL ASSETS	470,360	66,357	536,717
Deferred Outflows of Resources			
Defined Benefit Pension Plan	0	89,024	89,024
Combined Assets & Deferred Outflows of Resources	470,360	155,381	625,741
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	0		0
Salaries payable	0		0
Unearned revenue	144,305		144,305
Sales tax payable	4		4
Long-term liabilities: Net Pension Liability		227,346	227,346
Compensated absences		7,748	7,748
TOTAL LIABILITIES	144,309	235,094	379,403
Deferred Inflows of Resources			
Defined Benefit Pension Plan	0	13,591	13,591
Combined Liabilities and Deferred Inflows of Resources	144,309	21,339	392,994
Fund Balance/Net Position			
Nonspendables (prepaids, inventory)	781	(781)	
Restricted	145,185	(145,185)	0
Unrestricted Assigned	94,318	(94,318)	0
Unrestricted Committed	7,748	(7,748)	0
Unrestricted Unassigned	78,019	(78,019)	0
Total Fund Balance	\$ 326,051	326,051	0
Net Position			
Invested in capital assets		66,357	66,357
Restricted		145,185	145,185
Unrestricted		21,206	21,206
Total Net Position		\$ 232,748	\$ 232,748

Notes are an integral part of the basic financial statements.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
CLARKFIELD, MN 56223
DECEMBER 31, 2016**

**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
Revenues			
Intergovernmental	\$ 402,385	\$ 0	\$ 402,385
Charges for services	66,417	0	66,417
Investment earnings	1,033	0	1,033
Miscellaneous	4,746	0	4,746
Total Revenues	<u>474,581</u>	<u>0</u>	<u>474,581</u>
Expenditures/Expenses			
Conservation			
Current	461,208	14,291	475,499
Capital outlay	41,728	(41,728)	0
Total Expenditures/Expenses	<u>502,936</u>	<u>(27,437)</u>	<u>475,499</u>
Net Change in Fund Balance	(28,355)	27,437	(918)
Fund Balance/Net Position January 1	354,406	(120,740)	233,666
Change in Accounting Principle			
Fund Balance/Net Position December 31	<u>\$ 326,051</u>	<u>\$ (93,303)</u>	<u>\$ 232,748</u>

Notes are an integral part of the basic financial statements.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
CLARKFIELD, MN 56223
DECEMBER 31, 2016**

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

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive (Neg)</u>
Revenues				
Intergovernmental				
County	\$ 146,176	\$ 146,176	\$ 161,579	\$ 15,403
Local	5,000	5,000	1,312	(3,688)
Federal	0	0	0	0
State grant	238,982	238,982	239,494	512
Total intergovernmental	390,158	390,158	402,385	12,227
Charges for services	32,068	57,976	66,417	8,441
Miscellaneous				
Interest earnings	500	500	1,033	533
Other	1,300	1,300	4,746	3,446
Total miscellaneous	1,800	1,800	5,779	3,979
Total Revenues	424,026	449,934	474,581	24,647
Expenditures				
District operations				
Personnel services	284,380	284,380	318,336	(33,956)
Other services and charges	37,661	45,839	51,619	(5,780)
Supplies	14,000	15,748	7,695	8,053
Capital outlay	12,500	41,728	41,728	0
Total district operations	348,541	387,695	419,378	(31,683)
Project expenditures				
District	41,308	28,962	36,732	(7,770)
State	34,177	34,177	46,826	(12,649)
Total project expenditures	75,485	63,139	83,558	(20,419)
Total Expenditures	424,026	450,834	502,936	(52,102)
Net Change in Fund Balance	0	(900)	(28,355)	(27,455)
Fund Balance - January 1	354,406	\$354,406	354,406	
Fund Balance - December 31	\$ 354,406	\$ 353,506	\$ 326,051	\$ (27,455)

Notes are an integral part of the basic financial statements.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
BREAKDOWN OF COUNTY REVENUE
2016**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$	112,398
WATER PLAN MONEY	\$	0
WETLAND MONEY*	\$	9,566
FEEDLOT MONEY	\$	0
ABANDONED WELL	\$	0
DNR SHORELAND	\$	0
OTHER : AIS APPROPRIATION	\$	39,615
		<hr/>
TOTAL	\$	161,579

*Wetland Money:

FY2015 & FY2016 grant dollars carried over	+	FY 2017 grant	Minus	FY2017 unearned revenue	=	TOTAL
\$11,366	+	\$8,778	-	\$10,578	=	\$9,566

NOTE: The total should agree with amount reported as **County Revenue** in the "Budgetary Comparison Schedule."

List other "non-cash" county support (i.e. rent, health insurance, etc.) that does not show up anywhere on your annual report.

Yellow Medicine County owns the building that the Yellow Medicine SWCD is located in. Therefore, the SWCD does not pay any rent.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
UNEARNED REVENUE BREAKDOWN
2016**

Balance of 2016 BWSR Buffer Grant	\$	35,000
Balance of BWSR 2017 Conservation Delivery Grant:	\$	9,988
Balance of BWSR 2016 Easement Delivery Grant:	\$	268
Balance of BWSR 2017 Easement Delivery Grant:	\$	9,181
Balance of BWSR 2016 SWCD Local Capacity Services	\$	49,411
Balance of unencumbered BWSR Cost Share Grants:		
Fiscal Year 2016:	\$	9,935
Fiscal Year 2017:	\$	17,034
Balance of encumbered BWSR Cost Share Grants (by contract):		
FY Contract # Contract Amount T/A encumbered		
2016 2016-01 \$2,910 0		
Total of all Cost-Share Encumbrances	\$	2,910
Balance of County 2016 WCA Funds:	\$	1,800
Balance of County 2017 WCA Funds:	\$	8,778
Balance of <i>other</i> funds being deferred (list if any):	\$	0
TOTAL OF ALL UNEARNED REVENUE:	\$	144,305

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

**RECONCILIATION OF GOVERNMENT FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
WITH STATEMENT OF ACTIVITIES
DECEMBER 31, 2016**

Total Net Changes in Fund Balances- Governmental Funds	\$	(28,355)
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.		41,728
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements.		(14,127)
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		23,128
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.		(23,292)
Change in net position of government activities	\$	<u>(918)</u>

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Total Fund Balance – Total Governmental Funds	\$	326,051
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.		66,358
		(7,748)
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.		(227,346)
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(13,591)
Pension related deferred inflows are not due and payable in the current financial resources, and therefore are not reported in funds.		89,024
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		
Net Position of Governmental Activities	\$	<u>232,748</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, 2016

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.

During the year ended December 31, 2015, the District 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. FINANCIAL 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 principals the SWCD does not have any component units.

YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE 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 nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

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

C. FUND FINANCIAL STATEMENTS

The government reports the General Fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

Governmental fund financial statements 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 to pay liabilities of the current period. For this purpose, the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures are recorded when a liability is incurred under accrual accounting.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred.

Investment earnings are recognized when earned. Other revenues are recognized when they are received in cash because they usually are not measurable until then.

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

C. FUND FINANCIAL STATEMENTS (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 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. 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 changes to their budget in April of 2016.

Encumbrances: The SWCD does not utilize encumbrance accounting.

E. 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, 2016.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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. As of December 31, 2016 inventory value is \$781 (tree tubes \$189; tree mat \$592).

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.

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.

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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (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 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 financial 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 future periods and so will not be recognized as an outflow of resources (expenses/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts related to their pension obligations. The length of the expense recognition period for deferred amounts 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 financial 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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their pension obligations. These deferred amounts represent differences between projected and actual earnings on pension plan investments and are recognized for 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. There was no long term debt as of December 31, 2016.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (continued)

Vacation and Sick Leave and Compensated Absence

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 plus 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, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (continued)

Vacation and Sick Leave and Compensated Absence (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.

Long-Term Liabilities - Compensated Absences Payable

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

Balance January 1, 2016		\$ 30,875
Net change in Compensated Absences	-	23,127
Balance December 31, 2016		\$ 7,748

Changes in compensated absences payable decreased due to retirement of District Manager December 31, 2016.

Classifications of Fund Balances

Beginning with the year ending December 31, 2011, 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.

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Classifications of Fund Balances (Continued)

Committed – the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the District. Those committed amounts cannot be used for any other purposes unless the District removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts in the assigned fund balance classification the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District or the District Administrator who has been delegated that authority by District resolution.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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, 2016, the unassigned fund balance of the General Fund was approximately 25% of the subsequent year's budgeted expenditures.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investments in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. USE OF ESTIMATES

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

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. FUND BALANCE CLASSIFICATION

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

		General Fund
Non-spendable	\$	781
Restricted		145,185
Unrestricted Assigned		94,318
Unrestricted Committed		7,748
Unrestricted Unassigned		78,019
Total Fund Balance	\$	326,051

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$502,936; Budget \$450,834; Excess \$52,102.

C. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

Minnesota Statutes §475.53, subd. 3 limits the amount of outstanding general obligation bonded debt of the entity. The SWCD does not have any debt at this time, so complies with such laws.

YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.. 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.

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 \$476,552 at December 31, 2016, 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, 2016 was \$417,910.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

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.
- 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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (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 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, 2016, 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, 2016**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. As of December 31, 2016, 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, 2016:

<u>Cash/Investment Type</u>	<u>Average</u> <u>Maturities</u>	<u>%</u> <u>of Total</u>	
Checking Account	NA	20%	\$ 80,571
Savings Account	NA	22%	\$ 92,259
Certificates of Deposit	NA	<u>58%</u>	<u>\$ 245,080</u>
Total Cash		100%	\$ 417,910

A reconciliation of cash and certificates of deposits as shown on the Statements of Net Position at December 31, 2015:

Statement of Net Position	
Current Assets:	
Cash	\$ 172,830
Certificate of Deposit	<u>\$ 245,080</u>
Total	<u>\$ 417,910</u>

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE 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 report unearned revenue in connection with resources that have been received, but not yet earned.

Unearned Revenue

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2016, consists of:

Balance of 2017 BWSR Buffer Grant	\$	35,000
Balance of BWSR 2017 Conservation Delivery Grant	\$	9,988
Balance of BWSR 2016 Easement Delivery Grant	\$	268
Balance of BWSR 2017 Easement Delivery Grant	\$	9,181
Balance of BWSR 2016 SWCD Local Capacity Services Grant	\$	49,411
BWSR 2016 Cost Share Grant	\$	12,845
BWSR 2017 Cost Share Grant	\$	17,034
Balance of County 2016 Wetland Conservation Act Funds	\$	1,800
Balance of County 2017 Wetland Conservation Act Funds	\$	8,778
TOTAL OF ALL UNEARNED REVENUE	\$	144,305

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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, 2016 is as follows:

Governmental Activities	Balance <u>1-1-16</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12-31-16</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	36,637	13,028		49,665
Vehicles	50,900	28,700	17,500	62,100
Total Capital Assets Being Depreciated	<u>139,164</u>	<u>41,728</u>	<u>17,500</u>	<u>163,392</u>
Total Capital Assets	<u>143,853</u>	<u>41,728</u>	<u>17,500</u>	<u>168,081</u>
Less Assets Being Depreciated for:				
Buildings	25,636	1,624		27,260
Machinery & Equipment	35,600	3,243		38,843
Vehicles	43,860	(8,240)		35,620
Total Accumulated Depreciation	<u>105,096</u>	<u>(3,673)</u>		<u>101,723</u>
Total Capital Assets Being Depreciated, Net	\$ 38,757			\$ 66,358

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation is 5 to 10 years for Machinery and Equipment. Current year depreciation is \$14,127.

The District uses the threshold of \$5,000 for capitalizing assets purchased.

D. ACCOUNTS PAYABLE:

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

E. LONG-TERM DEBT

The SWCD has no long-term debt as of December 31, 2016.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4. OTHER INFORMATION

A. RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The District pays an annual premium based on its annual payroll. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

As of December 31, 2016, 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, 2016

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 \$200.00 per year.

NOTE 5. DEFINED BENEFIT PENSION PLANS

A. PLAN DESCRIPTION

The District contributes to a cost-sharing multiple-employer defined pension plan administered by the Public Employee Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. The plan and its benefits are established and administered in accordance with Minn. Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-1855.

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 % 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.

1. 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 % 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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

B. CONTRIBUTIONS

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

1. 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 2016. The SWCD was required to contribute 11.78 % of pay for Basic Plan members and 7.50 % for Coordinated Plan members in calendar year 2016. The SWCD's contributions to the General Employees Fund for the year ended December 31, 2016 were \$15,296. The SWCD's contributions were equal to the required contributions as set by state statute.

C. PENSION COSTS

General Employees Fund Pension Costs

At December 31, 2016, the SWCD reported a liability of \$227,346 for its proportionate share of the General Employees Fund'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 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. The State of Minnesota's proportionate share of the net pension liability associated with the SWCD totaled \$2,931. 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 share was .0028% which was an increase of .0003% from its proportion measured as of June 30, 2015.

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NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

C. PENSION COSTS (continued)

General Employees Fund Pension Costs (continued)

For the year ended December 31, 2016 the SWCD recognized pension expense of \$23,292 for its proportionate share of the General Employees Plan's pension expense. In addition, the SWCD recognized an additional \$874 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 13,591
Changes in actuarial assumptions	\$ 44,515	\$ -
Difference between projected and actual investment earnings	\$ 32,849	\$ -
Changes in proportion	\$ 11,661	\$ -
Contributions paid to PERA subsequent to the measurement date	\$ -	\$ -
Total	\$ 89,024	\$ 13,591

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 and RP-2000 tables for the Police and Fire Plan and Correctional Plan 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 all future years for the General Employees Plan and Police and Fire Plan, and 2.5 percent for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2016 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 experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

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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 on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	<u>2%</u>	0.50%
Total	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

F. Pension Liability Sensitivity

The following presents the SWCD’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the SWCD’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity of Net Pension Liability at Current Single Discount Rate (in thousands)						
	General Employees Fund		Police and Fire Fund		Correctional Fund	
1% Higher	6.50%	\$11,532,102	4.60%	\$5,617,911	4.31%	\$550,050
Current Discount Rate	7.50%	8,119,504	5.60%	4,013,174	5.31%	365,314
1% Lower	8.50%	5,308,452	6.60%	2,701,982	6.31%	221,092

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. PUBLIC EMPLOYEE DEFINED CONTRIBUTION PLAN (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 2016 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$147	\$147	5%	5%	5%

