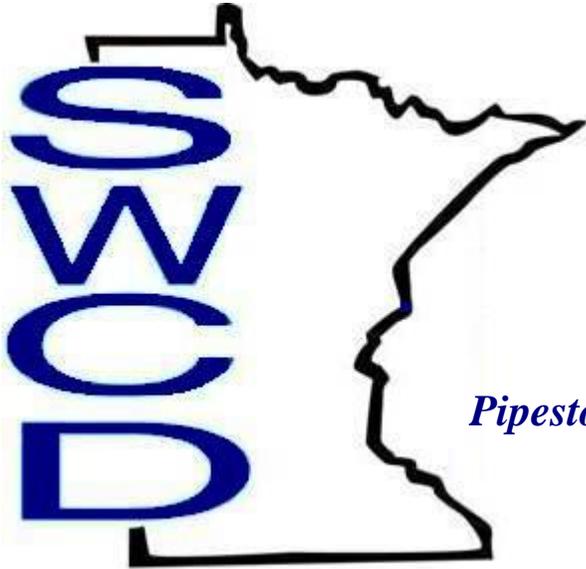


FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2016

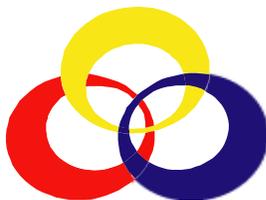


Pipestone Soil and Water Conservation District

119 2nd Avenue SW – Suite 13

Pipestone, MN 56164

The mission of the Pipestone Soil and Water Conservation District is to promote conservation of natural resources through Education, Technical Assistance, and Stewardship.



Kinner & Company Ltd

Certified Public Accountants

Taxes, QuickBooks & Investments

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
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DECEMBER 31, 2016

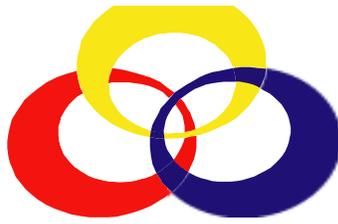
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**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
BOARD OF SUPERVISORS
DECEMBER 31, 2016**

<u>Board of Supervisors</u>	<u>Position</u>
Bill Folger	Chairperson
Ian Cunningham	Vice-Chairperson
Calvin Spronk	Secretary/Treasurer
Arvin Pater	Programs
Ken Christensen	Public Relations & Information

District Manager

Kyle Krier



Kinner & Company Ltd
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Governing Board
Pipestone Soil and Water Conservation District
Pipestone, MN 56164

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Pipestone Soil and Water Conservation District as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise the 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 of the Pipestone Soil and Water Conservation District as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in 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 and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2017, on our consideration of the Pipestone 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 Pipestone Soil and Water Conservation District's internal control over financial reporting and compliance.

Kinner & Company Ltd
Certified Public Accountants

July 14, 2017

112 N. Hiawatha, PO Box 14, Pipestone, MN 56164
507-825-5274 or 866-470-0759, fax 507-825-2147
Visit our website at www.kinner.co

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

The Pipestone 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 beginning on page 8.

USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on pages 8 and 9 provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. Fund financial statements are also presented on pages 8 and 9. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant fund. Since SWCD's are single-purpose special purpose governments, they are generally able to combine the government-wide and fund financial statements into single presentations. Pipestone Soil and Water Conservation District has elected to present in this format.

The Statement of Net Position and the Statement of Activities

The analysis of the SWCD as a whole begins on page 5. 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 accrual basis of accounting, which is similar to the accounting used by the 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. This can be thought of as the SWCD's net position — the difference between assets plus deferred outflows and liabilities plus 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. Additional nonfinancial factors also need to be considered, however, such as changes in the SWCD's property tax base 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 state finance most activities.

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

Reporting the SWCD's General Fund

Fund Financial Statements

The analysis of the SWCD's General Fund begins on page 6. The fund financial statements begin on page 8 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 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.

THE SWCD AS A WHOLE

The SWCD's combined net position increased \$3,447 (one percent) from \$369,838 to \$373,285. In contrast, last year's net position decreased by \$134,860. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the SWCD's governmental activities.

**Table 1
Net Position**

	Governmental Activities	
	(Unaudited)	
	2016	2015
Current Assets	\$706,443	\$739,800
Capital Assets, Net	142,853	118,174
Total Assets	<u>849,296</u>	<u>857,974</u>
Deferred Outflows of Resources	118,490	21,915
Current Liabilities	349,865	387,502
Long-term Liabilities	227,872	117,062
Total liabilities	<u>577,737</u>	<u>504,564</u>
Deferred Inflows of Resources	16,764	5,487
Net Position		
Investment in Capital Assets	142,853	118,174
Restricted	200,260	0
Unrestricted	<u>30,172</u>	<u>251,664</u>
Total Net Position	<u>\$373,285</u>	<u>\$369,838</u>

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

**Table 2
Changes in Net Position**

	Governmental Activities (Unaudited)	
	2016	2015
Revenues		
Intergovernmental- Federal	\$207,141	\$0
Intergovernmental-State	330,074	242,905
Intergovernmental-County	183,684	50,000
Charges for Services	35,487	18,204
General Revenues	<u>111,075</u>	<u>13,482</u>
Total Revenues	<u>867,461</u>	<u>324,591</u>
Expenses		
Conservation	<u>864,014</u>	<u>374,746</u>
Total Expenses	<u>864,014</u>	<u>374,746</u>
Increase (Decrease) before Prior Period Adjustment	3,447	(50,155)
Prior Period Adjustment	<u>0</u>	<u>(84,705)</u>
Increase (Decrease) in Net Position	<u><u>\$3,447</u></u>	<u><u>\$(134,860)</u></u>

The SWCD's total revenues increased by over 100 percent (\$542,870), while total expenses increased over 100 percent (\$489,268). The large increases in revenues and expenses relates to a grant and project for the United States Fish and Wildlife Services (USFW) in excess of \$200,000. Additional revenues and expenses that are not routine relate to flood disaster funds.

THE SWCD'S GENERAL FUND

As the SWCD completed the year, its General Fund (as presented in the balance sheet on page 8 reported a fund balance of \$356,578, which is above last year's total of \$352,298. The primary reasons for the General Fund's increase mirror the changes highlighted in the governmental activities analysis.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$464,058 above the final budgeted amounts. On the other hand, resources available for appropriation were \$470,023 above the final budgeted amount. The large variances relate to federal funds received and spent during 2016 for the USFW project as well as additional state funds that were not anticipated. No budget amendments were made during the year.

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

CAPITAL ASSET AND LONG TERM LIABILITIES

Capital Assets

At the end of 2016, the SWCD had \$142,853 invested in capital assets, net of depreciation. This amount represents a net increase (including additions and deletions) of \$24,679 from last year. This year's major additions include a Brillion drill, office equipment, copier, new computers and software.

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

	<u>Governmental Activities</u>	
	(Unaudited)	
	<u>2016</u>	<u>2015</u>
Buildings and Improvements	\$94,750	\$94,750
Machinery and Equipment	105,153	79,797
Furniture and Fixtures	8,219	2,958
Vehicles	<u>49,536</u>	<u>49,536</u>
Totals	<u>\$257,658</u>	<u>\$227,041</u>
(Net of Depreciation)	<u>\$142,853</u>	<u>\$118,174</u>

Long-Term Liabilities

At the end of 2016, the SWCD had \$8,645 in accrued compensated absences and \$219,227 in Net Pension Liability. This compares to \$8,229 in 2015 for accrued compensated absences and \$108,833 for Net Pension Liability. More detailed information about the SWCD's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The SWCD's elected officials considered many factors when setting the fiscal-year 2017 budget. Some of the economic factors taken into account for the 2017 budget included: sales of trees and tree mats, state funding (new grants: local capacity, buffer, water quality certification grant, etc.), federal funding and the county allocation. Expense factors include expenses, employee salary increases and health insurance benefits offered to the employees.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Pipestone Soil and Water Conservation District, 119 2nd Avenue SW, Pipestone, MN 56164.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
PIPESTONE, MINNESOTA

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2016

	General Fund	Adjustments See Notes	Statement of Net Position
<u>Assets</u>			
Cash and Cash Equivalents	\$701,461		\$701,461
Inventory	4,982		4,982
Capital Assets:			
Equipment (net of accumulated depreciation)		142,853	142,853
Total Assets	\$706,443	\$142,853	\$849,296
 Deferred Outflows of Resources			
Defined Benefit Pension Plan		118,490	118,490
Combined Assets and Deferred Outflows of Resources	\$706,443	\$261,343	\$967,786
 <u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	\$6,268		\$6,268
Unearned Revenue	343,597		343,597
Long-term Liabilities:			
Net Pension Liability		219,227	219,227
Compensated Absences		8,645	8,645
Total Liabilities	\$349,865	\$227,872	\$577,737
 Deferred Inflows of Resources			
Defined Benefit Pension Plan		16,764	16,764
Combined Liabilities and Deferred Inflows of Resources	\$349,865	\$244,636	\$594,501
 <u>Fund Balance/Net Position</u>			
Fund Balance			
Nonspendable	\$4,982	(\$4,982)	
Restricted	200,260	(200,260)	
Assigned	151,336	(151,336)	
Total Fund Balance	\$356,578	(\$356,578)	
 Net Position			
Investment in Capital Assets		\$142,853	\$142,853
Restricted		200,260	200,260
Unrestricted		30,172	30,172
Total Net Position		\$373,285	\$373,285

Notes are an integral part of the basic financial statements.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
PIPESTONE, MINNESOTA

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$720,056	\$843	\$720,899
Charges for Services	35,487		35,487
Interest Income	1,592		1,592
Miscellaneous	109,483		109,483
Total Revenues	\$866,618	\$843	\$867,461
Expenditures/Expenses			
Conservation			
Current	\$817,982	\$46,032	\$864,014
Capital Outlay	44,356	(44,356)	0
Total Expenditures/Expenses	\$862,338	\$1,676	\$864,014
Net Change in Fund Balance	\$4,280	(\$833)	\$3,447
Fund Balance/Net Position January 1	352,298	17,540	369,838
Fund Balance/Net Position December 31	\$356,578	\$16,707	\$373,285

Notes are an integral part of the basic financial statements.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
PIPESTONE, MINNESOTA

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 Positive (Neg)
Revenues				
Intergovernmental				
County	\$153,728	\$153,728	\$183,684	\$29,956
State Grant	216,367	216,367	329,231	112,864
Federal Grant	0	0	207,141	207,141
Total Intergovernmental	\$370,095	\$370,095	\$720,056	\$349,961
Charges for Services	\$25,000	\$25,000	\$35,487	\$10,487
Miscellaneous				
Interest Earnings	\$1,500	\$1,500	\$1,592	\$92
Other	0	0	109,483	109,483
Total Miscellaneous	\$1,500	\$1,500	\$111,075	\$109,575
Total Revenues	\$396,595	\$396,595	\$866,618	\$470,023
Expenditures				
District Operations				
Personnel Services	\$235,790	\$235,790	\$288,207	(\$52,417)
Other Services and Charges	70,656	70,656	33,609	37,047
Supplies	13,000	13,000	2,752	10,248
Capital Outlay	31,000	31,000	44,356	(13,356)
Total District Operations	\$350,446	\$350,446	\$368,924	(\$18,478)
Project Expenditures				
District	\$35,636	\$35,636	\$52,402	(\$16,766)
State	12,198	12,198	230,618	(218,420)
Federal	0	0	210,394	(210,394)
Total Project Expenditures	\$47,834	\$47,834	\$493,414	(\$445,580)
Total Expenditures	\$398,280	\$398,280	\$862,338	(\$464,058)
Excess of Revenues Over (Under)				
Expenditures	(\$1,685)	(\$1,685)	\$4,280	\$5,965
Fund Balance - January 1	\$352,298	\$352,298	\$352,298	
Fund Balance - December 31	\$350,613	\$350,613	\$356,578	\$5,965

Notes are an integral part of the basic financial statements.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO 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).

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

Financial Reporting Entity

The Pipestone Soil and Water Conservation District was organized under provisions of *Minnesota Statutes* Chapter 103C. The SWCD is governed by a Board of Supervisors composed of five members nominated by voters of the SWCD and 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 damages to wetlands and wildlife habitats.

The Pipestone Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture's Natural Resources Conservation Service (formerly Soil Conservation Service) and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution, and improper land use.

Each fiscal year, the 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 Pipestone 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.

Generally accepted accounting principles require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the SWCD does not have any component units.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all activities of the 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.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. The SWCD segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

Governmental Funds:

General Fund - The General Fund is the general operating fund of the SWCD. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered a major fund.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. Expenses are recorded when liabilities are incurred.

Fund Financial Statements:

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 government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual are intergovernmental revenues, charges and interest on investments. Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, 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 received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus/Basis of Accounting - continued

Interest on invested funds and revenue from sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received because they usually are not measurable until then.

Project expenditures represent costs that are funded from federal, state, or district revenues. State project expenditures consist of grants to participants of the Cost-Share Program and other state programs. District project expenditures are costs of materials and supplies in District projects.

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

Budget Information

The SWCD adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The SWCD does not use encumbrance accounting.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

Assets, Liabilities, and Fund Balance Accounts

Cash and Cash Equivalents

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

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Fund Balance Accounts- continued

Inventory

Inventory is valued at lower of cost or market using the first-in, first-out method. The cost of other consumable materials and supplies on hand are immaterial to the financial statements and the SWCD has therefore chosen to report these items as expenditures/expenses at the time of purchase.

Unearned Revenues

Unearned revenue consists of revenues that will be recognized when the related program expenditures are recognized.

Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. 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.

The SWCD uses a threshold of \$2,500 for capitalizing assets purchased. Those physical assets under \$2,500 are expensed directly and not capitalized.

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

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

The Pipestone Soil and Water Conservation District implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The SWCD currently recognizes deferred outflows relating to pensions for reporting in this category. The length of the expense recognition period for deferred amounts related is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (revenue) until that time. The items that qualify for reporting in this category are amounts related to pensions. These amounts are deferred and recognized as inflows of resources in the period that the amount is earned. Deferred amounts relating to pensions represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

Liabilities

Long term liabilities, such as compensated absences and net pension liability, are accounted for in the Government-wide Statement of Net Position.

Vacation and Sick Leave

Under the SWCD's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 14 hours per month. Sick leave accrual is 8 hours per month. The limit on the accumulation of annual leave is 240 hours and the limit on sick leave is 240 hours. Upon termination of employment from the SWCD and in good standing, employees are paid unused accrued vacation leave.

Fund Balance Classifications

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.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Classifications (Continued)

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

- Nonspendable fund balance – consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the SWCD Board. To be reported as committed, amounts cannot be used for any other purpose unless the 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 District 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 range of 35%-50% of budgeted operating expenditures for cash flow timing needs. At December 31, 2016, the unassigned fund balance of the General Fund was 0% of the subsequent year's budgeted expenditures.

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:

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position Classifications (continued)

- 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- Net position that does not meet the definition of “restricted” or “net investment in capital assets”.

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.

Explanation of Adjustments Column in Statements

1. Capital Assets: In the Statement of Net Position and Governmental Fund Balance Sheet, and adjustment is made if the SWCD has capital assets. This adjustment equals the net book balance of capitalized assets.
2. Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absences and Net Pension Liability the SWCD has as of the report date. See note on Long-term Liabilities.
3. Intergovernmental Revenue: The State of Minnesota contributed \$843 during 2016 relating to pensions. This is a government-wide adjustment. See Note 5.
4. Depreciation, Net Pension Expense and Change in Compensated Absences for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the net pension expense and the change in Compensated Absences between the reporting year and the previous year. This number is supported by the figures in the note on Long-Term Liabilities.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures over Budget

During 2016, actual expenditures, \$862,338, exceeded budgeted expenditures, \$398,280, by \$464,058.

General Fund Deficit

At December 31, 2016, the SWCD’s General Fund did not have a deficit fund balance.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3. DETAIL NOTES ON ALL FUNDS

Deposits and Investments

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

Custodial Credit Risk

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 \$644,321 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 \$701,461.

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.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

Concentrations of Credit Risk

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

Summary of the SWCD’s deposits as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Demand	\$ 228,524	\$ 285,664
Time/Savings	415,797	415,797
Total Deposits	<u>\$ 644,321</u>	<u>\$ 701,461</u>

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 issues 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.) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- e.) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
- f.) Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

- g.) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- h.) Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United State insurance company and with a credit quality in one of the top two highest categories.

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

UNEARNED REVENUE

Unearned revenue represents the unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) and Pipestone County for various programs. Expenditure-driven grant revenues are recognized when the related expenditures are recorded. Unearned revenue for the year ended December 31, 2016 consists of:

Balance of BWSR 2017 Conservation Delivery Grant	\$ 18,670
Balance of BWSR 2017 Easement Delivery Grant	1,194
Balance of BWSR 2016 Local Capacity Grant	30,000
Balance of BWSR 2017 Cost-Share Grant	15,873
Balance of BWSR 2016 Cost-Share Grant	13,981
Balance of Flood Disaster Phase 1	19,379
Balance of Flood Disaster Phase 2	88,132
Balance of Flood Disaster Phase 3	54,051
Balance of 2017 NRBG SSTS Funds	21,059
Balance of 2017 NRBG LWM	15,247
Balance of 2017 NRBG Shoreland	2,667
Balance of 2017 NRBG Feedlot	45,722
Balance of 2017 WCA	8,778
Balance of 2016 PCA SSTS	<u>8,844</u>
TOTAL OF ALL UNEARNED REVENUE:	<u>\$ 343,597</u>

COUNTY APPROPRIATION

Breakdown of County Appropriation from Pipestone County:

ANNUAL ALLOCATION	\$ 50,000
SSTS	50,725
FEEDLOT MONEY	52,377
LWM	15,247
WCA	8,778
NRBG LEVY	3,889
DNR SHORELAND	<u>2,668</u>
TOTAL	<u>\$ 183,684</u>

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

INVENTORY

Inventory is valued at lower of cost or market using the first-in, first-out method. The cost of inventories is recorded as expenditures when used (consumption 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 is \$4,982.

CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2016 is as follows:

	<u>Balance</u> <u>1/1/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/16</u>
Governmental Activities:				
Capital Assets Being Depreciated:				
Buildings & Improvements	94,750			94,750
Machinery and Equipment	79,797	39,095	13,739	105,153
Furniture and Fixtures	2,958	5,261		8,219
Vehicles	49,536			49,536
Total Capital Assets Being Depreciated	<u>227,041</u>	<u>44,357</u>	<u>13,739</u>	<u>257,659</u>
Less Accumulated Depreciation for:				
Buildings	15,206	4,345		19,551
Machinery and Equipment	49,352	10,235	13,739	45,849
Furniture and Fixtures	1,140	852		1,992
Vehicles	43,169	4,245		47,414
Total Accumulated Depreciation	<u>108,867</u>	<u>19,677</u>	<u>13,739</u>	<u>114,806</u>
Total Capital Assets Being Depreciated, Net	<u>118,174</u>			<u>142,853</u>
	<u>118,174</u>			<u>142,853</u>

CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended December 31, 2016 is as follows:

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due in</u> <u>One Year</u>
Compensated Absences	\$8,228	\$10,596	\$10,179	\$8,645	\$0
Net Pension Liability	108,833	140,450	30,056	219,227	0
Total Long-Term Liabilities	<u>117,061</u>	<u>151,046</u>	<u>40,235</u>	<u>227,872</u>	<u>0</u>

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

FUND BALANCE CLASSIFICATION

Nonspendable:	
Inventory	\$4,982
Restricted:	
State Cost-Share	29,854
Flood Disaster	161,562
PCA SSTS Grant	8,844
Assigned:	
Compensated Absences	8,645
Board Designations for Equipment and Projects	<u>142,691</u>
	\$356,578

NOTE 4. OTHER INFORMATION

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 Counties Intergovernmental Trust is a public entity risk pool currently operating 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, 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.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 4. OTHER INFORMATION (Continued)

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

While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the 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.

NOTE 5. DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature.

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 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 2015. The SWCD's contributions to the General Employees Fund for the year ended December 31, 2016, 2015 and 2014 were \$15,964, \$9,181, and \$8,478 respectively. The SWCD's contributions were equal to the required contributions as set by state statute.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Pension Costs

General Employees Fund Pension Costs

At December 31, 2016, the SWCD reported a liability of \$219,227 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. That State of Minnesota’s proportionate share of the net pension liability associated with the SWCD totaled \$2,826. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The SWCD’s proportion of the net pension liability was based on the SWCD’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2016, the SWCD’s proportion was .0027%, an increase of .0006 from .0021% at June 30, 2015.

For the year ended December 31, 2016, the SWCD recognized pension expense of \$30,190 for its proportionate share of the General Employees Plan’s pension expense. In addition, the SWCD recognized an additional \$843 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the SWCD reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience		\$ 16,764
Changes in Actuarial Assumptions	\$ 42,925	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	39,402	
Changes in Proportion	28,019	
Employer Contributions Subsequent to the Measurement Date	8,145	
Totals	<u>\$ 118,491</u>	<u>\$ 16,764</u>

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

\$8,145 reported as deferred outflows of resources related to pensions resulting from SWCD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2017	\$28,728
2018	\$28,728
2019	\$28,208
2020	\$7,919
2021	\$0
Thereafter	\$0

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years.

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

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.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the SWCD proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the SWCD’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Proportionate share of the General Employees Fund net pension liability:	\$311,367	\$219,227	\$143,328

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.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6. LEASE AGREEMENTS

The SWCD leases office space from the City of Pipestone. They signed a 30 month agreement which expires December 31, 2017. The terms state that the rent per month shall be \$725. Under the current agreement, total rent costs for 2016 were \$8,700.

NOTE 7. RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, December 31	\$356,578
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	142,853
Plus: Deferred Outflows of Resources	118,490
Less: Long-Term Liabilities	227,872
Less: Deferred Inflow of Resources	<u>16,764</u>
Net Position	<u>\$ 373,285</u>

NOTE 8. RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION

Change in Fund Balance	\$ 4,280
Capital Outlay	44,356
Intergovernmental Revenue related to Pensions	843
Pension Expense, net	(25,939)
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level	(19,677)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.	<u>(416)</u>
Change in Net Position	<u>\$ 3,447</u>

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
 SCHEDULE OF CONTRIBUTIONS
 PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year <u>Ending</u>	Statutorily Required <u>Contribution (a)</u>	Contributions in Relation to the Statutorily Required <u>Contribution (b)</u>	Contribution Deficiency <u>(Excess) (a-b)</u>	Covered- Employee <u>Payroll (d)</u>	Contributions as a Percentage of Covered-Employee <u>Payroll (b/d)</u>
December 31, 2016	\$15,964	\$15,964	-	\$212,858	7.50%
December 31, 2015	\$9,181	\$9,181	-	\$122,415	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".

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year <u>Ending</u>	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the <u>Total Pension Liability</u>
June 30, 2016	0.0027%	\$219,227	\$165,143	132.75%	68.90%
June 30, 2015	0.0021%	\$108,833	\$117,400	92.70%	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".

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE

General Employees Fund

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

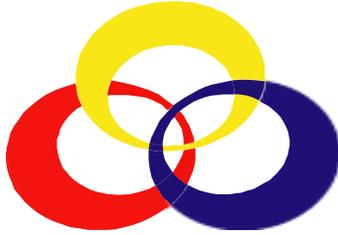
2015 Changes

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

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



Kinner & Company Ltd
Certified Public Accountants

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

Governing Board
Pipestone Soil and Water Conservation District
Pipestone, MN 56164

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the aggregate remaining fund information of the Pipestone Soil and Water Conservation District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Pipestone Soil and Water Conservation District's basic financial statements and have issued our report thereon dated July 14, 2017.

Internal Control over Financial Reporting

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

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 audit findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 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 audit findings and responses to be a material weakness: 2016-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pipestone Soil and Water Conservation District's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the SWCD in a separate letter dated July 14, 2017.

Pipestone Soil and Water Conservation District's response to the findings identified in our audit is described in the accompanying schedule of prior and current audit findings and responses. We did not audit the Pipestone Soil and Water Conservation District's response and, accordingly, we express no opinion on it.

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Pipestone Soil and Water Conservation District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as described in the Schedule of Prior and Current Findings and Responses, as item 2016-2. 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 Pipestone Soil and Water Conservation District's noncompliance with the above referenced provisions.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kinner & Company Ltd
Certified Public Accountants

July 14, 2017

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PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
SCHEDULE OF PRIOR AND CURRENT AUDIT
FINDINGS AND RESPONSES
DECEMBER 31, 2016

PRIOR FINDINGS

2014-1 Finding: A material weakness was reported due to lack of segregation of duties within the organization. This finding continues to exist as Finding 2016-1.

CURRENT FINDINGS

2016-1 Finding: Segregation of duties

Condition: The SWCD 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 SWCD has a limited number of accounting personnel.

Effect: 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 SWCDs of this size. The SWCD's board should be aware of this condition and monitor duties of SWCD personnel.

Response: The SWCD concurs with the recommendation. The SWCD's board will monitor duties.

2016-2 Finding: Contract over \$100,000 not solicited by public notice

Condition: A review of contracts throughout the year revealed that a contract for over \$100,000 was not solicited by public notice.

Criteria: Minnesota statute § 471.345 requires contracts over \$100,000 to be solicited by public notice.

Cause: Requests for bids were sent to select contractors instead of being solicited by public notice.

Effect: The SWCD may not have received the lowest quotes available to them.

Recommendation: The SWCD should be familiar with applicable statutes to be in compliance.

Response: The SWCD will familiarize with the relevant compliance requirements and follow them in the future.