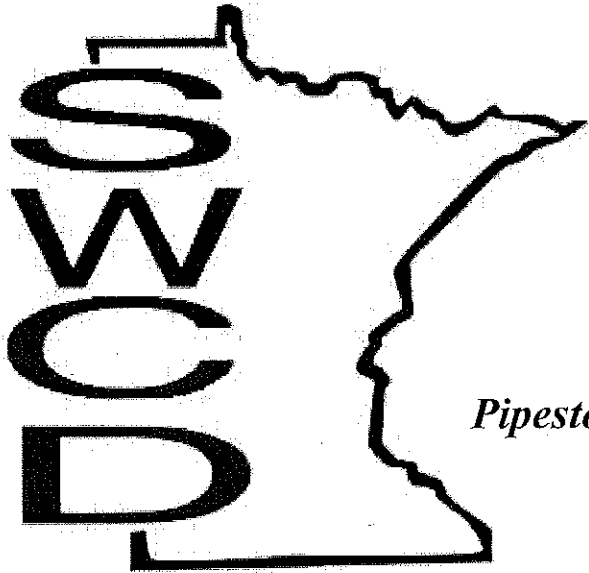


FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2019



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.

MEULEBROECK, TAUBERT & CO., PLLP.
CERTIFIED PUBLIC ACCOUNTANTS
PIPESTONE, MN 56164

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
BOARD OF SUPERVISORS
DECEMBER 31, 2019**

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**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
BOARD OF SUPERVISORS
DECEMBER 31, 2019**

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

District Manager

Kyle Krier

MEULEBROECK, TAUBERT & CO., PLLP
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Tyler, Minnesota 56178
507 247-3939
Lake Wilson, Minnesota 56151
507 879-3538
Marshall, Minnesota 56258
507 337-0501

PARTNERS

Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA
Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

David L. Meulebroeck, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the 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, Pipestone, Minnesota as of and for the year ended December 31, 2019, 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 involves 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 the 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 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, Pipestone, Minnesota, as of December 31, 2019, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year 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 on pages 5-8 and 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 Governmental 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 inquires 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.

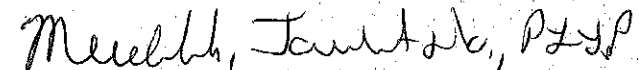
Other Information

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 statement

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 a report dated January 25, 2021, on our consideration of the Pipestone Soil and Water Conservation District, Pipestone, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Red Pipestone Soil and Water Conservation District, Pipestone, Minnesota's internal control over financial reporting and compliance.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

January 25, 2021

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

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, 2019. 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 10.

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 10 and 11 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 10 and 11. 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 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 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, 2019

Reporting the SWCD's General Fund

Fund Financial Statements

The analysis of the SWCD's General Fund begins on page 7. The fund financial statements begin on page 10 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 \$4,952 (2 percent) from \$299,291 to \$304,273. In contrast, last year's net position decreased by \$8,372. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the SWCD's governmental activities.

	Governmental Activities	
	2019	2018
Current Assets	\$831,367	\$789,093
Capital Assets, Net	122,418	128,139
Total Assets	953,785	917,232
Deferred Outflows of Resources	32,951	77,779
Current Liabilities	422,685	422,234
Long-term Liabilities	217,968	216,391
Total liabilities	640,653	638,625
Deferred Inflows of Resources	41,810	53,095
Net Position		
Investment in Capital Assets	122,418	128,139
Unrestricted	181,855	171,152
Total Net Position	\$304,273	\$299,291

**PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

**Table 2
Changes in Net Position**

	<u>2019</u>	<u>2018</u>
Revenues		
Intergovernmental-State	393,102	408,245
Intergovernmental-County	184,265	172,619
Charges for Services	12,801	21,917
General Revenues	<u>24,136</u>	<u>20,858</u>
Total Revenues	<u>614,304</u>	<u>623,639</u>
Expenses		
Conservation	<u>609,322</u>	<u>632,011</u>
Total Expenses	<u>609,322</u>	<u>632,011</u>
Increase (decrease) in net position	<u>4,982</u>	<u>(8,372)</u>

The SWCD's total revenues decreased by 1.5 percent \$9,335, while total expenses decreased 3.6 percent (\$22,689). The decreases in revenues and expenses relate to the availability of funds and the needs of consumers.

THE SWCD'S GENERAL FUND

As the SWCD completed the year, its General Fund (as presented in the balance sheet on page 10 reported a fund balance of \$408,682, which is more than last year's total of \$366,859. 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 \$140,942 above the final budgeted amounts. On the other hand, resources available for appropriation were \$184,686 above the final budgeted amount. The large variances relate to availability of State grants and when the need for those funds arises. No budget amendments were made during the year.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2019

CAPITAL ASSET AND LONG TERM LIABILITIES

Capital Assets

At the end of 2019, the SWCD had \$122,418 invested in capital assets, net of depreciation. This amount represents a net decrease of \$5,721 from last year. The increase is attributed to the new addition of survey equipment purchased during the year.

Table 3
Capital Assets at Year-end

	<u>Governmental Activities</u>	
	2019	2018
Buildings and Improvements	111,444	94,750
Machinery and Equipment	131,313	129,513
Furniture and Fixtures	8,219	8,219
Vehicles	49,536	49,536
Totals	300,512	282,018
(Net of Depreciation)	122,418	128,139

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The SWCD's elected officials considered many factors when setting the fiscal-year 2020 budget. Some of the economic factors taken into account for the 2020 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.

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PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
PIPESTONE, MINNESOTA

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2019

	General Fund	Adjustments See Notes	Statement of Net Position
<u>Assets</u>			
Cash and Cash Equivalents	\$814,329		\$814,329
Accounts Receivable	10,896		10,896
Inventory	6,142		6,142
Capital Assets:			
Depreciable, Net		122,418	122,418
Total Assets	831,367	122,418	953,785
Deferred Outflows of Resources			
Defined Benefit Pension Plan		32,951	32,951
Combined Assets and Deferred Outflows of Resources	\$831,367	\$155,369	\$986,736
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	\$3,449		\$3,449
Health Insurance Payable	3,234		3,234
Payroll Taxes Payable	2,358		2,358
Unearned Revenue	413,644		413,644
Long-term Liabilities:			
Net Pension Liability		193,507	193,507
Compensated Absences		24,461	24,461
Total Liabilities	\$422,685	\$217,968	\$640,653
Deferred Inflows of Resources			
Defined Benefit Pension Plan		41,810	41,810
Combined Liabilities and Deferred Inflows of Resources	\$422,685	\$259,778	\$682,463
<u>Fund Balance/Net Position</u>			
Fund Balance			
Nonspendable	\$6,142	(\$6,142)	
Assigned	337,658	(337,658)	
Unassigned	64,882	(64,882)	
Total Fund Balance	\$408,682	(\$408,682)	
Total Liabilities and Fund Balance	\$831,367		
Net Position			
Investments in Capital Assets		\$122,418	\$122,418
Unrestricted		181,855	181,855
Total Net Position		\$304,273	\$304,273
Total Liabilities and Net Position		\$155,369	\$986,736

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, 2019

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$576,905	\$462	\$577,367
Charges for Services	12,801		12,801
Investment Earnings	3,127		3,127
Miscellaneous	21,009		21,009
Total Revenues	\$613,842	\$462	\$614,304
Expenditures/Expenses			
Conservation			
Current	\$553,525	\$55,797	\$609,322
Capital outlay	18,494	(18,494)	
Total Expenditures/Expenses	\$572,019	\$37,303	\$609,322
Excess of Revenues Over (Under)			
Expenditures/Expenses	\$41,823	(\$36,841)	\$4,982
Fund Balance/Net Position January 1	\$366,859	(\$67,568)	\$299,291
Fund Balance/Net Position December 31	\$408,682	(\$104,409)	\$304,273

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, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Neg)
Revenues				
Intergovernmental				
County	\$184,750	\$184,750	\$184,265	(\$485)
State Grants	213,406	213,406	392,640	179,234
Total Intergovernmental	398,156	398,156	576,905	178,749
Charges for Services	15,000	15,000	12,801	(2,199)
Miscellaneous				
Interest Earnings	1,000	1,000	3,127	2,127
Other	15,000	15,000	21,009	6,009
Total Miscellaneous	16,000	16,000	24,136	8,136
Total Revenues	\$429,156	\$429,156	\$613,842	\$184,686
Expenditures				
District Operations				
Personnel Services	\$352,788	\$352,788	\$325,532	\$27,256
Other Services and Charges	46,153	46,153	88,590	(42,437)
Supplies	8,000	8,000	1,766	6,234
Capital Outlay			18,494	(18,494)
Total District Operations	406,941	406,941	434,382	(27,441)
Project Expenditures				
District	24,136	24,136	27,006	(2,870)
State			110,631	(110,631)
Total Project Expenditures	24,136	24,136	137,637	(113,501)
Total Expenditures	\$431,077	\$431,077	\$572,019	(\$140,942)
Excess of Revenues Over (Under)				
Expenditures	(1,921)	(1,921)	41,823	43,744
Fund Balance - January 1	366,859	366,859	366,859	
Fund Balance - December 31	\$364,938	\$364,938	\$408,682	\$43,744

Notes are an integral part of the basic financial statements.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, differences between expected and actual economic experience, changes in actuarial assumptions, and changes in proportion, are recognized over a four-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 leave in varying amounts based on their length of service. Vacation and sick leave accrual varies from 8 to 14 hours per month. limit on the accumulation of annual leave is 240 hours and the limit on sick leave is 800 hours. Maximum comp time to be accrued is 24 hours. Upon termination of employment from the SWCD and in good standing, employees are paid unused accrued vacation leave and comp time.

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, 2019

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, 2019, the unassigned fund balance of the General Fund was 15% 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, 2019

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 \$462 during 2019 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 2019, actual expenditures, \$572,019, were less than budgeted expenditures of \$431,077, by \$140,942.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

General Fund Deficit

At December 31, 2019, the SWCD's General Fund did not have a deficit fund balance.

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 (CDs) 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. The carrying amount of these deposits at December 31, 2019 was \$819,243.

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, 2019

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.

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
- 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.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

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, 2019 consists of:

Balance of BWSR 2020 Capacity Grant	\$126,562
Balance of BWSR 2020 Conservation & Delivery Grant	18,670
Balance of BWSR 2020 Cost-Share Grant	15,873
Balance of BWSR 2020 Buffer Cost-Share Grant	25,000
Balance of 2020 NRBG LWM	15,247
Balance of 2020 NRBG Shoreland	2,615
Balance of 2020 NRBG SSTS Funds	18,600
Balance of 2020 NRBG WCA	8,778
Balance of BWSR 2019 Capacity Grant	53,521
Balance of BWSR 2019 Cost-Share Grant	15,873
Balance of 2018 NRBG SSTS Funds	23,491
Balance of 2018 Cost-Share Grant	15,873
Balance of Flood Disaster Phase 3	54,051
Balance of BWSR 2018 Capacity Grant	19,490
	\$413,644

COUNTY APPROPRIATION

Breakdown of County Appropriation from Pipestone County:

ANNUAL ALLOCATION	\$85,000
SSTS	18,600
FEEDLOT MONEY	50,136
LWM	15,247
WCA	8,778
NRBG LEVY	3,889
DNR SHORELAND	2,615
TOTAL	\$184,265

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019, inventory is \$6,142.

CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2019 is as follows:

	Balance 1/1/19	Additions	Deletions	Balance 12/31/19
Governmental Activities:				
Capital Assets Being Depreciated:				
Buildings & Improvements	94,750	16,694		111,444
Machinery and Equipment	129,513	1,800		131,313
Furniture and Fixtures	8,219			8,219
Vehicles	49,536			49,536
Total Capital Assets Being Depreciated	282,018	18,494		300,512
Less Accumulated Depreciation for:				
Buildings	28,240	4,720		32,960
Machinery and Equipment	73,597	16,024		89,621
Furniture and Fixtures	4,628	1,348		5,976
Vehicles	47,414	2,123		49,537
Total Accumulated Depreciation	153,879	24,215		178,094
Total Capital Assets Being Depreciated, Net	128,139			122,418
Governmental Activity Capital Assets, Net	128,139			122,418

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended December 31, 2019 is as follows:

	Balance	<u>Change in</u>	Balance	Due in
	<u>12/31/18</u>	<u>Compensated</u>	<u>12/31/19</u>	<u>One</u>
		<u>Absences</u>		<u>Year</u>
Compensated Absences	\$16,678	\$7,783	\$24,461	\$0
Total Compensated Absences	16,678	7,783	24,461	0

FUND BALANCE CLASSIFICATION

Nonspendable:

Inventory \$ 6,142

Assigned:

Building Fund 95,916

Equipment Reserve 50,000

Operating Reserve 150,000

Seeding Incentive 41,742

Unassigned: 64,882

\$408,682

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.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4. OTHER INFORMATION (continued)

RISK MANAGEMENT (continued)

As of December 31, 2019, 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.

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 the Coordinated Plan. Coordinated Plan members are covered by Social Security.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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. 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019; the SWCD was required to contribute 7.50 percent for Coordinated Plan members. The SWCD's contributions to the General Employees Fund for the year ended December 31, 2019, 2018 and 2017 were \$18,835, \$18,414, and \$17,441, respectively. The SWCD's contributions were equal to the required contributions as set by state statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the SWCD reported a liability of \$193,507 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 \$16 million to the fund in 2019. 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 \$6,166. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the SWCD's proportion was .0035%, a decrease of .0001 from its proportion measured as of June 30, 2018.

SWCD's proportionate share of the net pension liability	\$193,507
State of Minnesota's proportionate share of the net pension	
Liability associated with the SWCD	<u>\$ 6,166</u>
Total	<u>\$199,673</u>

For the year ended December 31, 2019, the SWCD recognized pension expense of \$23,338 for its proportionate share of the General Employees Plan's pension expense. In addition, the SWCD recognized an additional \$462 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

At December 31, 2019, the SWCD reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 5,368	\$
Changes in Actuarial Assumptions		15,341
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		22,308
Changes in Proportion	19,431	4,161
Employer Contributions Subsequent to the Measurement Date	8,152	
Totals	<u>\$ 32,951</u>	<u>\$ 41,810</u>

\$8,152 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, 2020. 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>
2020	\$3,600
2021	(\$15,546)
2022	(\$5,377)
2023	\$312

Actuarial Assumptions

The total pension liability in the June 30, 2019, 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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

Actuarial assumptions used in the June 30, 2019 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 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031

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 Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%

Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the 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.

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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:	\$318,115	\$193,507	\$90,618

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. LEASE AGREEMENTS

The SWCD leases office space from the City of Pipestone. They signed a 30 month agreement which expires December 31, 2019. The terms state that the rent per month shall be \$850. Under the current agreement, total rent costs for 2019 were \$10,800.

During December of 2017 SWCD entered into a new lease for office space from the City of Pipestone, the lease term is for the period January 1, 2018 to December 31, 2020. The term states that the rent per month shall be \$850, 900, and \$950 for 2018, 2019, and 2020 respectively. Future minimum lease payments are as follows:

2020	<u>\$11,400</u>
Total	<u>\$11,400</u>

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7. RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, December 31	\$ 408,682
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	122,418
Plus: Deferred Outflows of Resources	32,951
Less: Long-Term Liabilities	217,968
Less: Deferred Inflow of Resources	<u>41,810</u>
Net Position	<u>\$ 304,273</u>

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

Change in Fund Balance	\$ 41,823
Capital Outlay	18,494
Intergovernmental Revenue related to Pensions	462
Pension Expense	(23,338)
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level	(24,215)
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned.	<u>(8,244)</u>
Change in Net Position	<u>\$ 4,982</u>

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The SWCD has no liability for Other Post-Employment Benefits (OPEB).

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

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability (a+b)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	0.0035%	\$193,507	\$6,166	\$199,673	\$251,133	79.51%	89.30%
June 30, 2018	0.0036%	\$199,713	\$6,519	\$206,232	\$238,770	86.37%	79.50%
June 30, 2017	0.0035%	\$223,438	\$2,792	\$226,230	\$224,103	100.95%	75.90%
June 30, 2016	0.0027%	\$219,227	\$2,826	\$222,053	\$165,143	134.46%	68.90%
June 30, 2015	0.0021%	\$108,833	\$0	\$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
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered-Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/d)</u>
December 31, 2019	\$17,703	\$17,703	-	\$236,040	7.50%
December 31, 2018	\$18,414	\$18,414	-	\$245,520	7.50%
December 31, 2017	\$17,441	\$17,441	-	\$232,545	7.50%
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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE

General Employees Fund

2019 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from P-2017 to MP-2018

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 Changes

Changes in Actuarial Assumptions:

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

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

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**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, Minnesota

We have audited, in accordance with the 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, the financial statements of the governmental activities, and the general fund information of the Pipestone Soil and Water Conservation District, Pipestone, Minnesota as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Pipestone Soil and Water Conservation District, Pipestone, Minnesota's basic financial statements, and have issued our report thereon dated January 25, 2021.

Internal Control Over Financial Reporting

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

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

detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be material weaknesses (2019-1) and (2019-2), prior and current.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pipestone Soil and Water Conservation District, Pipestone, Minnesota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories except tax increment financing because these provisions do not apply to 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, Pipestone, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Pipestone Soil and Water Conservation District, Pipestone, Minnesota's noncompliance with the above reference provisions.

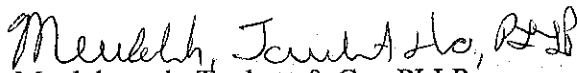
Pipestone Soil and Water Conservation District
Pipestone, Minnesota
Page 3

Pipestone Soil and Water Conservation District's Response to the Findings

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

Purpose of this 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.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

January 25, 2021

PIPESTONE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

PRIOR FINDINGS

2016-1 Finding: A material weakness was reported due to lack of segregation of duties within the SWCD. This finding continues to exist as Finding 2019-1

CURRENT FINDINGS

2019-1 Finding: Segregation of duties

Condition: The SWCD has limited personnel available to perform accounting duties

Criteria: Internal controls should be in place that provides 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 SWCD's 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.

2019-2 Finding: Lack of expertise by SWCD personnel to prepare financial statements in accordance with generally accepted accounting principles.

Condition: The SWCD personnel lack the expertise to prepare financial statements in accordance with generally accepted accounting principles.

Criteria: Internal controls should be in place that provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles.

Effect: SWCD personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Recommendation: The SWCD should provide personnel with adequate training to develop expertise to prepare financial statements in accordance with generally accepted accounting principles.

Response: This is not unusual in a SWCD of this size. It is economically infeasible for the SWCD to provide the necessary training for personnel to acquire and maintain this expertise. The SWCD will continue to have the auditing firm prepare the financial statements and will have a review of the statements with the auditor.