

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

INTRODUCTORY SECTION

DECEMBER 31, 2017

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2017**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Board of Supervisors		
Chair	Roland Wood	January 2019
Vice Chair	Terry Helbig	January 2021
Treasurer	Tom Gosse	January 2019
Secretary	Chuck Fick	January 2021
Member	Nate Arendt	January 2021
Appointed		
District Manager	Terri Peters	Indefinite

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

FINANCIAL SECTION

DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Wabasha Soil and Water Conservation District
Wabasha, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Wabasha Soil and Water Conservation District (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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 opinions.

Opinions

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 District as of December 31, 2017, and the respective changes in financial position and budgetary comparison for the general fund for the year then ended in accordance 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 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 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 District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic 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.

Smith, Schafu and Associates, Ltd.

Red Wing, Minnesota

November 8, 2018

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Wabasha Soil and Water Conservation District's (the District's) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on December 31, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 7. For the General Fund, these statements tell how these services were financed in the short term as well as what remains for future spending. The General Fund statements also report the District's operations in more detail than the government-wide statements by providing information about the District's fund. Since soil and water conservation districts are single-purpose, special-purpose governments, they are generally able to combine the government-wide and fund financial statements into single presentations. The District has elected to present in this format.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating.

In the district-wide financial statements the District's activities are shown in one category titled Governmental Activities. All of the District's basic services are included here.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the General Fund, not the District as a whole. The District presents only a General Fund, which is a governmental fund. All of the District's basic services are reported in the General Fund, which focuses on how money flows into and out of that fund and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The General Fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's net position from Governmental activities was \$103,526 on December 31, 2017. This was an increase of \$83,385 from the prior year.

	Total	
	2017	2016
Assets		
Current and other assets	\$ 592,360	\$ 485,137
Capital assets	48,576	10,743
Total assets	640,936	495,880
Deferred Outflows of Resources	73,305	139,064
Liabilities		
Current liabilities	361,724	310,445
Long-Term liabilities	184,959	266,028
Total liabilities	546,683	576,473
Deferred Inflows of Resources	64,032	38,330
Net Position		
Net investment in capital assets	48,576	10,743
Unrestricted	54,950	9,398
Total net position	\$ 103,526	\$ 20,141

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

District's Revenue. The District's total revenues were \$697,625 for the year ended December 31, 2017, compared to \$575,255 for the year ended December 31, 2016. This increase of \$122,370 is primarily due to additional grant funding received during 2017.

A condensed version of the Statement of Activities follows:

	Total	
	2017	2016
Revenue		
Intergovernmental	\$ 679,953	\$ 551,099
Charges for services	14,550	21,681
Investment earnings	1,279	393
Miscellaneous	1,843	2,082
Total revenues	697,625	575,255
 Expenses		
Conservation	614,240	513,295
Change in net position	83,385	61,960
Net position, beginning of year	20,141	(41,819)
Net position, end of year	\$ 103,526	\$ 20,141

The cost of all governmental activities was \$614,240 for the year ended December 31, 2017, compared to \$513,295 for the year ended December 31, 2016. This increase of \$100,945 is primarily due to an increase in state project expenditures as allowed by the additional funding noted above.

FINANCIAL ANALYSIS OF THE GENERAL FUND

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$230,636 an increase of \$55,944 from last year's ending fund balance of \$174,692.

GENERAL FUND BUDGETARY HIGHLIGHTS

The actual revenue was \$105,254 less than budgeted due to grant funding being less than anticipated. The actual charges to appropriations (expenditures) were \$161,198 below the final budgeted amounts primarily due to revenues being less than anticipated not allowing for many budgeted project expenditures. The most significant positive variance of \$119,986 occurred in personnel services due to two open positions not filled during the year.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2017, the District had \$48,576 of capital assets, net of accumulated depreciation. Total depreciation expense for the year was \$10,612.

	Total	
	2017	2016
Equipment	\$ 108,692	\$ 60,247
Less accumulated depreciation	60,116	49,504
Total	<u>\$ 48,576</u>	<u>\$ 10,743</u>

Long-Term Liabilities

As of December 31, 2017, the District had \$6,209 in accrued compensated absences and \$178,750 in net pension liability. This compares to \$6,204 as of December 31, 2016 for accrued compensated absences and \$259,824 in net pension liability.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information contact the Wabasha Soil and Water Conservation District at 611 Broadway Ave., Suite 10, Wabasha, MN 55981. The phone number is 651-565-4673 extension 3.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2017

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WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
GENERAL FUND BALANCE SHEET AND
STATEMENT OF NET POSITION OF GOVERNMENTAL ACTIVITIES
December 31, 2017

	General Fund	Reconciliation	Governmental Activities
Assets			
Cash and cash equivalents	\$ 536,240	\$	\$ 536,240
Due from other governmental units	55,256		55,256
Prepaid expenses	864		864
Capital assets			
Equipment (net of accumulated depreciation)		48,576	48,576
Total Assets	592,360	48,576	640,936
Deferred Outflows of Resources			
Deferred pension outflows		73,305	73,305
Liabilities			
Accounts payable	5,827		5,827
Salaries and wages payable	4,996		4,996
Other accrued liabilities	519		519
Unearned revenue	350,382		350,382
Noncurrent liabilities:			
Net pension liability		178,750	178,750
Compensated absences		6,209	6,209
Total Liabilities	361,724	184,959	546,683
Deferred Inflows of Resources			
Deferred pension inflows		64,032	64,032
Fund Balance / Net Position			
Fund Balance			
Nonspendable	864	(864)	
Unassigned	229,772	(229,772)	
Total Fund Balance	230,636	(230,636)	
Net Position			
Net investment in capital assets		48,576	48,576
Unrestricted		54,950	54,950
Total Net Position		103,526	103,526
Total Fund Balance / Net Position	\$ 230,636	\$ (127,110)	\$ 103,526

See Notes to Financial Statements

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
DISTRICT-WIDE FINANCIAL STATEMENTS AND FUND BALANCE
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2017**

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances (page 7)		\$ 230,636
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 108,692	
Less: Accumulated depreciation	60,116	48,576
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
Net pension liability	(169,477)	
Compensated absences	(6,209)	(175,686)
Net position of governmental activities (page 7)		\$ 103,526

WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND
STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES
For the Year Ended December 31, 2017

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental revenue	\$ 679,953	\$	\$ 679,953
Charges for services	14,550		14,550
Investment earnings	1,279		1,279
Miscellaneous	1,843		1,843
Total Revenues	697,625		697,625
Expenditures			
Conservation:			
Current	593,236	21,004	614,240
Capital outlay	48,445	(48,445)	
Total Expenditures	641,681	(27,441)	614,240
Net Change in Fund Balance / Net Position	55,944	27,441	83,385
FUND BALANCE / NET POSITION - BEGINNING	174,692	(154,551)	20,141
FUND BALANCE / NET POSITION - ENDING	\$ 230,636	\$ (127,110)	\$ 103,526

See Notes to Financial Statements

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 9)	\$	55,944
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Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$	48,445	
Depreciation expense		<u>(10,612)</u>	
			37,833

In the statement of activities, certain operating expenses - severance benefits, compensated absences, and other postemployment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Net pension liability	\$	(10,387)	
Compensated absences		<u>(5)</u>	
			<u>(10,392)</u>

Change in net position of governmental activities (page 9)	\$	<u><u>83,385</u></u>
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WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Year Ended December 31, 2017

	Budgeted Amounts		2017 Actual	Over (Under) Final Budget
	Original	Final		
REVENUES				
Intergovernmental				
County	\$ 264,194	\$ 264,194	\$ 211,962	\$ (52,232)
Federal	34,000	34,000	4,132	(29,868)
State	489,485	489,485	463,859	(25,626)
Total Intergovernmental	787,679	787,679	679,953	(107,726)
Charges for services	14,800	14,800	14,550	(250)
Miscellaneous				
Interest earnings	400	400	1,279	879
Other			1,843	1,843
Total Miscellaneous	400	400	3,122	2,722
TOTAL REVENUES	802,879	802,879	697,625	(105,254)
EXPENDITURES				
District Operations				
Personnel services	357,846	357,846	237,860	(119,986)
Other services and charges	67,859	67,859	99,962	32,103
Supplies			2,026	2,026
Capital outlay			48,445	48,445
Total District Operations	425,705	425,705	388,293	(37,412)
Project Expenditures				
District	13,700	13,700	7,700	(6,000)
Federal	30,600	30,600	767	(29,833)
State	332,874	332,874	244,921	(87,953)
Total Project Expenditures	377,174	377,174	253,388	(123,786)
TOTAL EXPENDITURES	802,879	802,879	641,681	(161,198)
NET CHANGE IN FUND BALANCE			55,944	55,944
FUND BALANCE - BEGINNING	174,692	174,692	174,692	
FUND BALANCE - ENDING	\$ 174,692	\$ 174,692	\$ 230,636	\$ 55,944

See Notes to Financial Statements

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The financial statements of the Wabasha Soil and Water Conservation District (the District) are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

Financial Reporting Entity

The District is organized under the provisions of Minnesota Statutes Chapter 103C. The District is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

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

The District provides technical and financial assistance to individuals, groups, districts, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution and improper land use.

Each fiscal year the District develops a work plan which is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

The District is not considered a part of Wabasha County because, even though the County provides a significant amount of the District's revenues in the form of an appropriation, it does not retain any control over the operations of the District.

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

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District.

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

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

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the District considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period.

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

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

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

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

Budget Information

The District adopts an estimated revenues and expenditures 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 District does not use encumbrance accounting.

Use of Estimates

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

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Cash and Investments

Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Receivables

Receivables are collectible within one year.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets are reported on a net (depreciated) basis. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life greater than one year. General capital assets are valued at historical or estimated historical cost.

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. For the purpose of computing depreciation, the useful life for machinery and equipment is five to ten years.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section of deferred outflows of resources. This separate financial statement element 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) until that time. The District has one type of item which occurs related to revenue recognition. The deferred outflow of resources is pension related.

Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Unearned revenue as of December 31, 2017 represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 14 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of vacation leave is 200 hours and the limit on the accumulation of sick leave is 1,040 hours. Upon termination of employment from the District, employees are only paid accrued vacation leave.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate financial statement element, deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item which occurs related to revenue recognition. The deferred inflow of resources is pension related.

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.

Classification of Net Position

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

Net Investment in Capital Assets – the amount of net position representing capital assets net of accumulated depreciation.

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

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

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Classifications of Fund Balances

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

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

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

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

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

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

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

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2017, the District's deposits were not exposed to custodial credit risk.

Fair Value Measurement

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access
- Level 2: Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There were no assets measured at fair value on a recurring basis noted at the District.

3. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, being depreciated:				
Equipment	\$ 60,247	\$ 48,445	\$	\$ 108,692
Less accumulated depreciation for:				
Equipment	<u>49,504</u>	<u>10,612</u>	<u></u>	<u>60,116</u>
Governmental activities capital assets, net	<u>\$ 10,743</u>	<u>\$ 37,833</u>	<u>\$</u>	<u>\$ 48,576</u>

Depreciation for the year ended December 31, 2017 was \$10,612.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the year ended December 31, 2017.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	\$ 6,204	\$ 7,291	\$ 7,286	\$ 6,209	\$
Net Pension Liability	259,824		81,074	178,750	
	<u>\$266,028</u>	<u>\$ 7,291</u>	<u>\$ 88,360</u>	<u>\$ 184,959</u>	<u>\$</u>

5. Risk Management

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

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

6. Operating Leases

The District leases office space on a yearly basis. Under the current agreement total costs for the year ended December 31, 2017 were \$10,370.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Defined Benefit Pension Plans – Statewide

Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by 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.

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

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

Benefits Provided

1. General Employees Plan Benefits

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 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given one percent 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 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 percent of average salary for each of the first ten years of service and 2.7 percent 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 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Defined Benefit Pension Plans – Statewide (Continued)

Contributions

1. General Employees Fund Contributions

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

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The District's contributions to the General Employees Fund for the year ended December 31, 2017 were \$13,247. The District's contributions were equal to the required contributions as set by the state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the District reported a liability of \$178,750 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$2,276. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0028 percent which was a decrease of 0.0004 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of \$10,387 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$66 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.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (continued)

At December 31, 2017, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 5,891	\$ 12,358
Changes in actuarial assumptions	33,916	17,920
Difference between projected and actual investment earnings	3,448	
Changes in proportion	23,322	33,754
Contributions paid to PERA subsequent to the measurement date	<u>6,728</u>	
Total	<u>\$ 73,305</u>	<u>\$ 64,032</u>

\$6,728 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31:</u>	<u>Pension Expense Amount</u>
2018	\$ 4,533
2019	15,931
2020	(10,331)
2021	(7,588)

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

1. GERP Actuarial Assumptions

Assumptions	GERP
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 General Employees Plan for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Defined Benefit Pension Plans – Statewide (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Unallocated Cash	2%	0.00%
Total	100%	

Discount Rate

GERP: The discount rate used to measure the total pension liability in 2017 was 7.50 percent. 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 specified in Minnesota Statutes. Based on those 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.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERP Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the GERP net pension liability	\$ 277,255	\$ 178,750	\$ 98,106

Pension Plan Fiduciary Net Position

Detailed information about GERP'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.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

REQUIRED SUPPLEMENTAL INFORMATION

DECEMBER 31, 2017

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

**Schedule of District's Contributions
GERP Retirement Funds
Last Ten Years**

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 12,994	\$ 12,994	\$	\$ 173,249	7.50%
2016	13,099	13,099		174,651	7.50%
2017	13,247	13,247		176,627	7.50%
2018					
2019					
2020					
2021					
2022					
2023					
2024					

NOTE: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

**Schedule of District's Proportionate Share of Net Pension Liability
Public Employees PERA
Last Ten Years (presented prospectively)**

Fiscal Year Ending June 30	District's Portion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0023%	\$ 119,198	\$ 170,509	69.91%	78.19%
2016	0.0032%	259,824	172,136	150.94%	68.90%
2017	0.0028%	178,750	176,627	101.20%	75.90%
2018					
2019					
2020					
2021					
2022					
2023					
2024					

NOTE: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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**WABASHA SOIL AND WATER CONSERVATION DISTRICT
WABASHA, MINNESOTA**

OTHER REPORT SECTION

DECEMBER 31, 2017

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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

To the Board of Supervisors
Wabasha Soil and Water Conservation District
Wabasha, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Wabasha Soil and Water Conservation District, Wabasha, Minnesota, as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 8, 2018.

The *Minnesota Legal Compliance Audit Guide for 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 interests, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the District is not allowed to issue debt.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of Wabasha Soil and Water Conservation District and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Schafner and Associates, Ltd.

Red Wing, Minnesota
November 8, 2018