

**LINCOLN SOIL AND WATER  
CONSERVATION DISTRICT  
AUDITED FINANCIAL REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2017**

# LINCOLN SOIL AND WATER CONSERVATION DISTRICT

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# LINCOLN SOIL AND WATER CONSERVATION DISTRICT

## SCHEDULE OF BOARD MEMBERS AND OFFICIALS

DECEMBER 31, 2017

|                     |                          | <u>Term Expires</u> |
|---------------------|--------------------------|---------------------|
| Conrad Schardin     | Chairman                 | 12-31-18            |
| John Boulton        | Vice Chairman            | 12-31-20            |
| Daniel Christianson | Treasurer                | 12-31-18            |
| Glen Sorensen       | Secretary                | 12-31-18            |
| Ronald Bunjer       | Public Relations         | 12-31-20            |
| Dale Sterzinger     | District Manager         | Indefinite          |
| Randy Kraus         | Farm Bill Assistant      | Indefinite          |
| Colleen Wichern     | Administrative Assistant | Indefinite          |
| Jacob Harrison      | Conservation Technician  | Indefinite          |

# RICHARD W. HOLMBERG, LTD

*Certified Public Accountant*

PO Box 262  
Slayton, MN 56172

Richard Holmberg, CPA

432 Legion Field Road  
Marshall, MN 56258

(507) 836-8505  
Fax 507-836-8505  
rwhcpa@frontiernet.net

Danielle Berg, CPA  
Jennifer Clarke  
Rita Anderson

Brooke Swart  
Molly Zobrist

(507) 532-9674  
Fax 507-532-9676  
rwhcpa@vastbb.net

## INDEPENDENT AUDITOR'S REPORT

Lincoln Soil & Water Conservation District  
200 S Co. Hwy. 5, Suite 2  
Ivanhoe, MN 56142

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Lincoln Soil and Water Conservation District, Ivanhoe, Minnesota, as of and for the year ended December 31, 2017, 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 Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the Minnesota Legal Compliance Audit Guide for Local Governments, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statute 6.65. 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 includes examining, on a test basis, evidence supporting 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 major fund, the general fund, of the Lincoln Soil and Water Conservation District, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

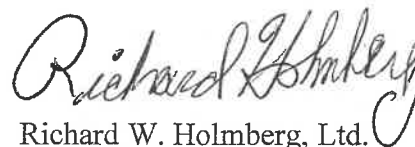
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 Lincoln Soil and Water Conservation District's basic financial statements. The introductory section and budgetary comparison schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and budgetary comparison schedule have 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 them.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 19, 2018, on our consideration of the Lincoln Soil and Water Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of the 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* and should be considered in assessing the results of our audit.

  
Richard W. Holmberg, Ltd.  
Certified Public Accountant

September 19, 2018

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

This section of the annual financial report of the Lincoln Soil and Water Conservation District presents the Management Discussion and Analysis. The discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's basic financial statements following this section.

**FINANCIAL HIGHLIGHTS**

- The fund balance of the District increased primarily due to Farm Bill assistance, Buffer Law Implementation grants, and Buffer cost share programs.
- The SWCD had also had a decrease in expenses from the prior year.
- An unexpected amount of a little over \$32,000 was brought in due to the sale of Life Insurance stock.

**USING THIS ANNUAL REPORT**

This annual report consists of five main topics: 1) Management's Discussion and Analysis (MDA); 2) Financial Statements; 3) Reconciliation Statements; 4) Notes to the Financial Statements; and 5) Required Supplementary Information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities, found on pages 10 and 12, provide information about the activities of the Soil and Water Conservation District (SWCD) as a whole and present a longer-term view of the District's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the SWCD's operations in more detail than the government-wide statements by providing information about the District's most significant funds. Since the SWCD's are special-purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. Lincoln SWCD has elected to present in this format.

Reconciliation Statements – pages 11 and 13:

- Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position explains the differences in these two statements. The Statement of Net Position under the "Adjustments" column shows the differences in the two statements.
- Reconciliation of the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances explains the differences in the two statements. The Statement of Activities under the "Adjustments" column shows the differences in the two statements.

The Notes to the Financial Statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes provide information such as: 1) Summary of significant accounting policies; 2) Stewardship, compliance and accountability; 3) Deposits and Investments; 4) Changes in General Fixed Assets; 5) Unearned Revenue; 6) Compensated Absences Payable; 7) Risk Management; 8) Pension Plan; 9) Operating Leases; and 10) Subsequent Events. The Notes to the Financial Statement are on pages 14 – 24.

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

Required Supplementary Information, found on pages 25 and 28, includes the Budgetary Comparison Statement, Notes to Required Supplementary Information, and Pension Schedules.

**Statement of Net Position and Statement of Activities**

The analysis of the Lincoln SWCD as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District 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 District 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 District's net position and changes in them. One can think of the SWCD's net position - the difference between assets and liabilities - as one way to measure the SWCD's financial health, or financial position. Over time, increases or decreases in the SWCD's net position are one indicator of whether its financial health is improving or deteriorating. One will need to consider other non-financial factors to assess the overall health of the SWCD.

In the Statement of Net Position and the Statement of Activities, the SWCD presents Governmental activities. All of the SWCD's basic services are reported here. Appropriations from the county and state also finance activities.

**Reporting the SWCD's General Fund**

**Fund Financial Statements**

The analysis of the SWCD's general fund begins on page 6. The fund financial statements provide detailed information about the general fund. The SWCD 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 the fund and the balances left at year-end that are available for spending. The fund 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.

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

**THE SWCD AS A WHOLE**

**Statement of Net Position**

The SWCD's combined assets were higher, increasing from \$1,083,736 to \$1,319,994. As of December 31, 2017, the majority of the liabilities are from deposits from landowners for seed, trees and equipment rent, unearned revenue from grants, and a potential pension liability. Looking at the net position and net of revenues and expenses of governmental activities separately, however, two very different stories emerge. The analysis below focuses on the net position (Table 1) of the District's governmental activities.

**Table 1**

Statement of Net Position

|  | Governmental Activities   |                           |
|--|---------------------------|---------------------------|
|  | <u>Dec 31, 2017</u>       | <u>Dec. 31, 2016</u>      |
| Current Assets                                     | \$1,186,687               | \$861,520                 |
| Capital Assets Net of Depreciation                 | <u>126,307</u>            | <u>110,042</u>            |
| Total Assets                                       | 1,312,994                 | 971,562                   |
| Deferred Outflows of Resources                     | <u>86,478</u>             | <u>112,174</u>            |
| Total Assets & Deferred Outflows of Resources      | <u><b>\$1,399,472</b></u> | <u><b>\$1,083,736</b></u> |
| Current and Other Liabilities                      | \$ 599,599                | \$ 549,045                |
| Deferred Inflows of Resources                      | 85,709                    | 42,270                    |
| Net Position:                                      |                           |                           |
| Investment in Capital Assets                       | 126,307                   | 110,042                   |
| Restricted   | 0                         | 0                         |
| Unrestricted                                       | <u>587,857</u>            | <u>382,379</u>            |
| Total Net Position                                 | <u><b>\$687,595</b></u>   | <u><b>492,421</b></u>     |
| Total Liabilities, Deferred Inflows & Net Position | <u><b>\$1,399,472</b></u> | <u><b>\$1,083,736</b></u> |

Net Position of the SWCD's governmental activities increased by \$195,174 (\$492,421 compared to \$687,595). Unrestricted Net Position are the part of Net Position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$587,857, an increase of \$205,478. The restricted funds represent funds that have been recognized but are designated for a specific purpose by the donor.



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

**Statement of Activities**

Table 2 reflects changes in Governmental activities of the District.

**Table 2**

Changes in Net Position

|                        | Governmental Activities   |                         |
|------------------------|---------------------------|-------------------------|
|                        | <u>Dec 31, 2017</u>       | <u>Dec. 31, 2016</u>    |
| Revenues               |                           |                         |
| <u>General:</u>        |                           |                         |
| County                 | \$155,350                 | \$121,706               |
| State                  | 265,608                   | 191,167                 |
| Interest Earnings      | 1,740                     | 673                     |
| <u>Program:</u>        |                           |                         |
| Miscellaneous          | 32,458                    | 6,169                   |
| Charges for Services   | <u>603,127</u>            | <u>626,309</u>          |
| Total Revenues         | <b><u>\$1,058,283</u></b> | <b><u>\$946,024</u></b> |
| Expenses               |                           |                         |
| General Government     | \$368,028                 | \$402,110               |
| Conservation           | 480,188                   | 519,315                 |
| Depreciation           | <u>14,893</u>             | <u>11,917</u>           |
| Total Expenses         | <b><u>\$863,109</u></b>   | <b><u>\$933,342</u></b> |
| Change in Net Position | <u>\$ 195,174</u>         | <u>\$ 12,682</u>        |

The SWCD's total revenues increased by \$112,259 from last year. The total expenses of all programs and services decreased, by \$70,233. Revenue changes reflect the following: 2017 was the first time that local capacity building funds of \$125,337 were received. The seed program revenues were lower than in 2016. Although seed sales were up by over \$16,500, Sales in Tree Mats and Trees were down. The new seed drill did not have the rentals that were expected, revenue on rentals was down significantly compared to the previous year.

**THE SWCD'S FUNDS**

As the SWCD completed the year, its general fund as presented in the balance sheet on page 10, reported a combined fund balance of \$809,399, which is above last year's total of \$607,093.

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The SWCD made no revisions to their budget the year ended December 31, 2017. The Budgetary Comparison Schedule is found on page 25.

The actual revenues in excess of expenditures was \$202,306 compared to the budgeted loss of \$(4,067). Total revenues were \$189,498 more than the budget and expenditures were \$16,875 less than the budgeted amount.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Schedules of General Capital Assets and the Summary of Changes in General Capital Assets consists of capital assets over the District threshold of \$5,000. At the end of 2017, the District had \$295,085 invested in a broad range of capital assets, including Land/Land Improvement, Building Materials, Vehicles, Equipment and Machinery (Table 3). This amount increased from the previous year as the district added to their capital assets. There were no capital assets deleted.

**Table 3**

Capital Assets at Year-end  
(Net of Depreciation)

| <u>Capital Assets</u>  | <u>Governmental Activities</u> |                      |
|------------------------|--------------------------------|----------------------|
|                        | <u>Dec 31, 2017</u>            | <u>Dec. 31, 2016</u> |
| Land/Land Improvements | \$ 11,768                      | \$ 11,768            |
| Buildings/Construction | 67,053                         | 67,053               |
| Vehicles               | 82,368                         | 72,770               |
| Equipment/Machinery    | <u>133,896</u>                 | <u>112,337</u>       |
| Total Capital Assets   | <u>\$295,085</u>               | <u>\$263,928</u>     |
| (Net of Depreciation)  | <u>\$126,307</u>               | <u>\$110,042</u>     |

This year the SWCD purchased a Polaris Ranger and a Trimble R10 Survey Unit.

**Long-Term Liabilities**

Long-term liability obligations include accrued vacation pay and in some instances a portion of accrued sick leave for which employees are paid upon termination from the District by retirement, illness or death. Detailed information about the District's long-term liabilities is presented in the Notes to the Financial Statements under Section I. Summary of Significant Accounting Policies- H (2) (b). Vacation and Sick Leave on page 16; and under II(C) Compensated Absences Payable on page 18.

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's elected officials considered many factors when setting the fiscal-year 2017 budget. Some of the economic factors taken into account for the 2017 budget include: charges for services, State funding, Federal funding, Working Lands Initiative funding, Clean Water Funding, and County allocation. Expense factors will include charges for services, Clean Water Funding expenditures for projects and the Working Land Initiative.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lincoln Soil and Water Conservation District 200 S Co. Hwy. 5, Suite 2, Ivanhoe, MN 56142 or call 507-694-1630, Ext. 3. Visit the website [www.lincolnswcd.net](http://www.lincolnswcd.net)

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
Statement of Net Position and Governmental Fund Balance Sheet  
For the Year Ended December 31, 2017

|  | General<br>Fund     | Adjustments<br>See Reconciliation | Statement of<br>Net Position |
|--|---------------------|-----------------------------------|------------------------------|
| <b>Assets</b>  |                     |                                   |                              |
| Cash   |                     |                                   |                              |
| Checking Accounts  | \$ 676,836          |                                   | \$ 676,836                   |
| Treasury Savings Account                                   | 450,773             |                                   | 450,773                      |
| Total Cash   | <u>1,127,609</u>    |                                   | <u>1,127,609</u>             |
| Accounts Receivable  | 5,897               |                                   | 5,897                        |
| Inventory  | 6,687               |                                   | 6,687                        |
| Prepaid Items  | 2,501               |                                   | 2,501                        |
| Due from other Governments                                 | 43,993              |                                   | 43,993                       |
| Capital Assets, Net of Accumulated Depreciation            |                     | 126,307                           | 126,307                      |
| Total Assets   | <u>1,186,687</u>    | <u>126,307</u>                    | <u>1,312,994</u>             |
| Deferred Outflows of Resources:                            |                     |                                   |                              |
| Differences and Changes in Pension Liabilities             | -                   | 86,478                            | 86,478                       |
| Total Deferred Outflows of Resources                       | <u>-</u>            | <u>86,478</u>                     | <u>86,478</u>                |
| Total Assets and Deferred Outflows of Resources            | <u>\$ 1,186,687</u> | <u>\$ 212,785</u>                 | <u>\$ 1,399,472</u>          |
| <b>Liabilities</b>   |                     |                                   |                              |
| Sales Tax Payable  | \$ 20               | -                                 | \$ 20                        |
| Accounts Payable   | 2,078               |                                   | 2,078                        |
| Accrued Salaries Payable                                   | 7,402               |                                   | 7,402                        |
| Flexible Spending Account                                  | 1,332               |                                   | 1,332                        |
| Deposits on Sales  | 58,875              |                                   | 58,875                       |
| Unearned Revenue   | 307,581             |                                   | 307,581                      |
| Compensated Absences                                       | -                   | 18,025                            | 18,025                       |
| Net Pension Liability                                      | -                   | 204,286                           | 204,286                      |
| Total Liabilities  | <u>377,288</u>      | <u>222,311</u>                    | <u>599,599</u>               |
| Deferred Inflows of Resources:                             |                     |                                   |                              |
| Difference and Changes in Pension Liabilities and Expenses | -                   | 85,709                            | 85,709                       |
| Total Deferred Inflows of Resources                        | <u>-</u>            | <u>85,709</u>                     | <u>85,709</u>                |
| <b>Fund Balance</b>  |                     |                                   |                              |
| Non-spendable  | 115,985             | (115,985)                         | -                            |
| Committed  | 25,364              | (25,364)                          | -                            |
| Assigned   | 131,437             | (131,437)                         | -                            |
| Unassigned   | 536,613             | (536,613)                         | -                            |
|  | <u>\$ 809,399</u>   | <u>(809,399)</u>                  | <u>-</u>                     |
| <b>Net Position</b>  |                     |                                   |                              |
| Invested in Capital Assets                                 |                     | 126,307                           | 126,307                      |
| Unrestricted   |                     | 587,857                           | 587,857                      |
|  |                     | <u>\$ 714,164</u>                 | <u>\$ 714,164</u>            |

See the Notes to the Financial Statements.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 December 31, 2017

|   |                          |
|---|--------------------------|
| <b>Total Fund Balance - Total Governmental Funds</b>  | <b>\$ 809,399</b>        |
| Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet.                                       | 126,307                  |
| Deferred Outflows reported in the government-wide statement of net position are not current financial resources and therefore are not reported in the governmental fund balance sheet.            |                          |
| Difference between expected and actual economic experience for pension plan.  | 86,478                   |
| Compensated absences are not due and payable in the current period and are not reported in the general funds.   | (18,025)                 |
| Deferred Inflows reported in the government-wide statement of net position are not a use of current financial resources and therefore are not reported in the governmental fund balance sheet.    |                          |
| Difference between projected and actual earnings for pension plan.  | (85,709)                 |
| Change in Proportionate Share of Net Pension Liability.   | (26,569)                 |
| Net pension liability reported in the government-wide statement of net position is not a use of current financial resources and therefore is not reported in the governmental fund balance sheet. | <u>(204,286)</u>         |
| <b>Net Position of Governmental Funds</b>   | <b><u>\$ 687,595</u></b> |

See the Notes to the Financial Statements.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
Statement of Activities and Governmental Revenues, Expenditures and  
Changes in Fund Balance  
For the Year Ended December 31, 2017

|   | General<br>Fund   | Adjustments<br>See Reconciliation | Statement of<br>Activities |
|---|-------------------|-----------------------------------|----------------------------|
| <b>Revenues</b>   |                   |                                   |                            |
| Intergovernmental                                       |                   |                                   |                            |
| County  | \$ 155,350        | \$ -                              | \$ 155,350                 |
| State   | 265,608           |                                   | 265,608                    |
| Total Intergovernmental Revenues                        | <u>420,958</u>    | <u>-</u>                          | <u>420,958</u>             |
| Charges for Services                                    | <u>603,127</u>    | <u>-</u>                          | <u>603,127</u>             |
| Miscellaneous   |                   |                                   |                            |
| Interest  | 1,740             |                                   | 1,740                      |
| Other   | 32,458            |                                   | 32,458                     |
| Total Miscellaneous                                     | <u>34,198</u>     | <u>-</u>                          | <u>34,198</u>              |
| Total Revenues  | <u>1,058,283</u>  | <u>-</u>                          | <u>1,058,283</u>           |
| <b>Expenditures\Expenses</b>                            |                   |                                   |                            |
| District Operations                                     |                   |                                   |                            |
| Personnel Services                                      | 260,405           | (3,173)                           | 257,232                    |
| Other Services and Charges                              | 79,902            |                                   | 79,902                     |
| Supplies  | 4,325             |                                   | 4,325                      |
| Capital Outlay  | 31,157            | (31,157)                          | -                          |
| Depreciation  | -                 | 14,893                            | 14,893                     |
| Total District Operations                               | <u>375,789</u>    | <u>(19,437)</u>                   | <u>356,352</u>             |
| Project Expenditures\Expenses                           |                   |                                   |                            |
| District  | 446,711           |                                   | 446,711                    |
| State   | 32,263            |                                   | 32,263                     |
| County- Water Plan                                      | 1,214             |                                   | 1,214                      |
| Total Project Expenditures\Expenses                     | <u>480,188</u>    | <u>-</u>                          | <u>480,188</u>             |
| Total Expenditures\Expenses                             | <u>855,977</u>    | <u>(19,437)</u>                   | <u>836,540</u>             |
| Excess of Revenues Over(Under)<br>Expenditures\Expenses | 202,306           | 19,437                            | 221,743                    |
| Fund Balance\Prior Net Position - January 1             | <u>607,093</u>    | <u>(114,672)</u>                  | <u>492,421</u>             |
| Fund Balance\Net Position - December 31                 | <u>\$ 809,399</u> | <u>\$ (95,235)</u>                | <u>\$ 714,164</u>          |

See the Notes to the Financial Statements.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**

Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2017

|  |                                 |
|--|---------------------------------|
| <b>Net Change in Fund Balance - Total Governmental Funds</b>   | <b>\$ 202,306</b>               |
| Governmental funds report capital outlay as expenditures. However, in the government wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. | 31,157                          |
| Depreciation expense on capital assets is reported in the government-wide statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.                          | (14,893)                        |
| The government-wide statement of activities report pension expense on the full accrual basis for net results of actuarial projections and contribution from the State of Minnesota. This difference is not recorded in the fund financial statement.                                     | (32,045)                        |
| Compensated Absences are also reflected in the government-wide statement of activities.  | <u>8,649</u>                    |
| <b>Changes in Net Position of Governmental Activities</b>  | <b><u><u>\$ 195,174</u></u></b> |

See the Notes to the Financial Statements.

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Lincoln Soil and Water Conservation District was organized under provisions of Minnesota Stat. Ch. 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 Lincoln Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture's Natural Resources Conservation Service and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution and improper land use.

Each fiscal year the 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 financial reporting policies of the District conform to generally accepted accounting principles.

**A. Financial Reporting Entity**

In conformance with standards established by the Governmental Accounting Standards Board, the District includes all funds and account groups that are controlled by or dependent on the District Board. Control by and dependence on the District were determined on the basis of budget adoption, taxing authority, obligation of the District to finance any deficits that may occur, and any significant subsidy provided by the District.

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

The District does not have any component units.

**B. Basis of Accounting**

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all governmental activities, which normally are supported by appropriations and intergovernmental revenues.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements included reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.



**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the corporation.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

### **Fund Financial Statements**

The fund financial statements of the District include only one fund, the General Fund. The General Fund is accounted for by a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or thirty days thereafter to be used to pay liabilities of the current period.

#### C. Use of Estimates

The preparation of financial statements in conformity with 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.

#### D. Budget

The District adopts an estimated revenue and expense budget for the General Fund. Comparisons of estimated revenues and budgeted expenses to actual are presented in the financial statements in accordance with generally accepted accounting principles.

#### E. Cash Equivalents

Lincoln Soil and Water Conservation District recognizes cash as currency on hand, demand deposits held with financial institutions, certificates of deposit, money market accounts and repurchase agreements.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Lincoln Soil and Water Conservation District recognizes as cash equivalents short-term, highly liquid investments that (a) are readily convertible to known amounts of cash and (b) are so near to their maturity that they present an insignificant risk of changes in value because of changes in interest rates.

G. Assets, Liabilities, and Equity Accounts

1. Assets

Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Accounts receivable are from charges for services. Management believes all balances are fully collectible. Therefore, no allowance for uncollectible amounts is deemed to be necessary.

Inventory consists of tree matting and are stated at cost.

Due from Other Governments includes amounts for shared projects and grants.

Capital assets are no longer reported on a gross basis. They are now reported on a net (depreciated) basis. General capital assets are still valued at historical or estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

|                            |               |
|----------------------------|---------------|
| Machinery and Equipment    | 5 – 10 years  |
| Furniture and Fixtures     | 7 – 10 years  |
| Buildings and Improvements | 15 – 30 years |
| Vehicles                   | 5 years       |

The Lincoln Soil and Water Conservation District has set the capitalization threshold at \$5,000.

2. Liabilities

Current liabilities include accounts payable, accrued payroll and related taxes, sales tax payable, deposits on sales, compensated absences, and unearned revenue.

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 18 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of annual leave is 240 hours and unlimited sick leave. Upon termination from the District, employees are paid accrued vacation leave. Retirement age employees: (eligible for benefits from Social Security or PERA) and at least 10-year of continued service: 1) Any accrued vacation leave will be paid in the amount of 25% of the employees accrued, unused sick leave to a maximum of \$2,500. 100% of the employee severance to the Health Care Savings Plan.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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3. Equity

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “investment in capital assets.”

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified in accordance with GASB 54. Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. The classifications are defined by GASB as the following:

- a. Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes but not limited to: prepaid expenses, accrued interest receivable, taxes receivable, inventory, fixed assets.
- b. Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.
- c. Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes internally imposed by formal action of the Board of Directors. It requires formal action by the Board of Directors to remove or change the constraints placed on these resources. Including but not limited to: unemployment compensation and sinking fund.
- d. Assigned – Amounts in the assigned fund balance classification are intended to be used by the Board of Directors for specific purposes but do not meet the criteria to be classified as restricted or committed.
- e. Unassigned – Unassigned fund balance is the residual classification of the General Fund and includes all spendable amounts not contained in the other classifications.

H. Revenues and Expenses

1. Revenues

a. Intergovernmental

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

Nonexchange transactions, in which the District receives value without directly giving value in return, includes grants and donations. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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b. Other Revenue

Investment income (reported as Miscellaneous Revenue) and revenue from the sale of trees (reported as Charges for Services) are recognized when earned, since they are measurable and available. Other revenues generally are recognized when they are received in cash because they usually are not measurable until then.

2. Expenses

a. Project Expenses

Project expenses represent costs that are funded from Federal, State, or district revenues. State project expenses consist of grants to participants for the Cost-Share Program and other state-authorized projects. District project expenses are costs of materials and supplies in the sale of trees, tree planting, and other District projects.

**II. DETAILED NOTES ON ALL FUNDS**

A. Capital Assets

Changes in Capital Assets:

|                                  | Balance<br>1/1/2017 | Additions        | Deletions   | Balance<br>12/31/2017 |
|----------------------------------|---------------------|------------------|-------------|-----------------------|
| Land                             | \$ 11,768           | \$ -             |             | \$ 11,768             |
| Buildings                        | 67,053              | -                |             | 67,053                |
| Vehicles                         | 72,770              | 9,598            |             | 82,368                |
| Machinery & Equipment            | 112,337             | 21,560           |             | 133,897               |
| Total                            | 263,928             | 31,157           | -           | 295,086               |
| Accumulated Depreciation         | (153,886)           | (14,893)         |             | (168,779)             |
| Governmental Capital Assets, Net | <u>\$ 110,042</u>   | <u>\$ 16,264</u> | <u>\$ -</u> | <u>\$ 126,307</u>     |

B. Unearned Revenue

Unearned revenue represents advances from the Minnesota Board of Water and Soil Resources (BWSR) and Lincoln County for various programs. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2017, consists of the following:

|                |                   |
|----------------|-------------------|
| County Revenue | \$ 24,841         |
| State Revenue  | 282,740           |
| Total          | <u>\$ 307,581</u> |

C. Compensated Absences

Changes in long-term debt for the period ended December 31, 2017, are:

|                                    |                  |
|------------------------------------|------------------|
| Balance-January 1, 2017            | \$ 26,674        |
| Net change in compensated absences | <u>(8,649)</u>   |
| Balance-December 31, 2017          | <u>\$ 18,025</u> |

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**D. Deposits**

Minnesota Stat. 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 covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institutions banking day, not covered by insurance or bonds. All deposits are in category 1, low risk type investment.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better, irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department at a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The total collateral available from pledged securities was \$742,670, which was sufficient coverage for any deposits not insured by FDIC.

As of December 31, 2017, the carrying amount of the District’s deposits with financial institutions was \$1,127,609 and the bank balance \$1,102,485. The bank balance is categorized as follows:

|                            |                     |
|----------------------------|---------------------|
| Insured by FDIC Insurance  | \$ 540,173          |
| Covered by Collateral      | 562,312             |
| Uninsured/Uncollateralized | 0                   |
| Total                      | <u>\$ 1,102,485</u> |

**E. Investments**

The District may also invest idle funds as authorized by Minnesota Statutes as follow: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better, general obligations of the Minnesota Housing Agency rated “A” or better; bankers’ acceptance of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by corporations or their Canadian subsidiaries, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two categories; repurchase or reverse purchase 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. The District does not have any investments policies that would further limit investment choices.

The District does not carry any investments on its financial statements as of December 31, 2017.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**III. PENSION PLANS**

Plan Description

The Lincoln Soil and Water Conservation District, participates in the following 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 (GERF)

All Full-time and certain part-time employees of the Lincoln Soil and Water Conservation District, are covered by the General Employees Retirement Fund (GERF). GERF 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.

**A. Benefits Provided**

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

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

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

GERF Benefits

Benefits are based on 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 of the remaining years. The annual accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for the 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 is the age for unreduced Social Security benefits capped at 66.

**B. Contributions**

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

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
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GERF Contributions

Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.5%, respectively, of their annual salary covered for the calendar year 2017. The Lincoln Soil and Water Conservation District required to contribute 11.78% of pay for Basic Plan members and 7.5% for the Coordinated Plan members in calendar year 2017. The District's contributions to the GERF for the year ended December 31, 2017 was \$14,173. The District's contributions were equal to the required contributions as set by state statute.

**C. Pension Costs**

GERF Pension Costs

At December 31, 2017, the District reported a liability of \$267,944 for its proportionate share of the GERF's net pension liability. 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, 2014, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was .0032% which was a decrease of .0001% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of \$5,476 for its proportionate share of GERF's pension expense.

At June 30, 2017, the corporation reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience  | \$6,733                           | \$13,640                         |
| Changes in actuarial assumptions                             | \$34,976                          | \$20,480                         |
| Differences between projected and actual investment earnings | \$37,376                          | \$34,686                         |
| Change in proportionate share of net pension liability.      |                                   | \$16,903                         |
| <b>Total</b>   | <b>\$79,085</b>                   | <b>\$85,709</b>                  |

\$8,458 reported as deferred outflows of resources related to pensions resulting from Lincoln Soil and Water Conservation District's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

| Year Ended June 30: | Pension Expense Amount |
|---------------------|------------------------|
| 2018                | (\$1,764)              |
| 2019                | \$9,418                |
| 2020                | \$5,820                |
| 2021                | (\$8,672)              |

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**D. Actuarial Assumptions**

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for all plans 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.

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 most recent five-year experience study for Police and Fire Plan was completed in 2016. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually

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 per year thereafter.

The long-term expected rate of return on pension plan investments is 7.5%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class          | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic Stocks      | 39%               | 5.10%                                  |
| International Stocks | 19%               | 5.30%                                  |
| Bonds                | 20%               | .75%                                   |
| Alternative Assets   | 20%               | 5.90%                                  |
| Cash                 | 2%                | 0.0%                                   |

**E. Discount Rate**

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



**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
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**F. Pension Liability Sensitivity**

The following presents the corporation'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 corporation'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<br>Discount Rate (6.5%) | Discount Rate (7.5%) | 1% Increase in Discount<br>Rate (8.5%) |
|--|--|----------------------|--|
| Corporation's proportionate share of the GERS net pension liability: | \$316,863                              | \$204,286            | \$112,121                              |

**G. Pension Plan Fiduciary Net Position**

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**8. DEFINED CONTRIBUTION PLAN**

The District Supervisors are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investments earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

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

| Contribution Amount |          | Percent of covered Payroll |          | Required |
|---------------------|----------|----------------------------|----------|----------|
| Employee            | Employer | Employee                   | Employer | Rates    |
| \$206               | \$206    | 5.0%                       | 5.0%     | 5.0%     |

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERA. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**  
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**IV. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, employee health, and natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities, errors and omissions and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the general-purpose 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. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

**V. OPERATING LEASE**

The District leases office space on a yearly basis. Under the current agreement, total costs for 2017 were 11,910. The terms of the lease state that either party can terminate the agreement with written notice. The lease payment would be pro-rated based on the number of days the space was used. Therefore, no minimum lease requirement can be determined.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT**

Budgetary Comparison Schedule - General Fund

For the Year Ended December 31, 2017

|  | Original<br>Budget | Final<br>Budget   | Actual              | Variance with<br>Final Budget |
|--|--------------------|-------------------|---------------------|-------------------------------|
| <b>Revenues</b>                                |                    |                   |                     |                               |
| Intergovernmental                              |                    |                   |                     |                               |
| County   | \$ 138,000         | \$ 138,000        | \$ 155,350          | \$ 17,350                     |
| State  | 224,285            | 224,285           | 265,608             | 41,323                        |
| Total Intergovernmental Revenues               | <u>362,285</u>     | <u>362,285</u>    | <u>420,958</u>      | <u>58,673</u>                 |
| Charges for Services                           | 500,520            | 500,520           | 603,127             | 102,607                       |
|  | 500,520            |                   |                     |                               |
| Miscellaneous                                  |                    |                   |                     |                               |
| Interest                                       | 1,000              | 1,000             | 1,740               | 740                           |
| Other  | 4,980              | 4,980             | 32,458              | 27,478                        |
| Total Miscellaneous                            | <u>5,980</u>       | <u>5,980</u>      | <u>34,198</u>       | <u>28,218</u>                 |
| Total Revenues                                 | <u>\$ 868,785</u>  | <u>\$ 868,785</u> | <u>\$ 1,058,283</u> | <u>\$ 189,498</u>             |
| <b>Expenditures</b>                            |                    |                   |                     |                               |
| District Operations                            |                    |                   |                     |                               |
| Personnel Services                             | \$ 326,325         | \$ 326,325        | \$ 260,405          | \$ 65,920                     |
| Other Services and Charges/Supplies            | 73,700             | 73,700            | 84,227              | (10,527)                      |
| Capital Outlay                                 | 36,000             | 36,000            | 31,157              | 4,843                         |
| Total District Operations                      | <u>436,025</u>     | <u>436,025</u>    | <u>375,789</u>      | <u>60,236</u>                 |
| Project Expenditures                           |                    |                   |                     |                               |
| District                                       | 403,300            | 403,300           | 446,711             | (43,411)                      |
| State  | 15,527             | 15,527            | 32,263              | (16,736)                      |
| County-Water Plan                              | 18,000             | 18,000            | 1,214               | 16,786                        |
| Total Project Expenditures                     | <u>436,827</u>     | <u>436,827</u>    | <u>480,188</u>      | <u>(43,361)</u>               |
| Total Expenditures                             | <u>\$ 872,852</u>  | <u>\$ 872,852</u> | <u>\$ 855,977</u>   | <u>\$ 16,875</u>              |
| Excess of Revenues Over(Under)<br>Expenditures | <u>\$ (4,067)</u>  | <u>\$ (4,067)</u> | <u>\$ 202,306</u>   | <u>\$ 206,373</u>             |
| Fund Balance - January 1                       | <u>\$ 607,093</u>  | <u>\$ 607,093</u> | <u>\$ 607,093</u>   |                               |
| Fund Balance - December 31                     | <u>\$ 603,026</u>  | <u>\$ 603,026</u> |                     |                               |

See the Notes to the Financial Statements.

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2017**

Basis of Presentation

The budgetary comparison schedule has been prepared on the modified accrual basis of accounting.

Budgetary Legal Requirements

Budgets are adopted on a basis consistent with generally accepted accounting principles. The budget is used during the fiscal year as a tool to monitor actual revenues and expenditures.

The budget is adopted through the passage of a resolution by the board of trustees. Any revision that alters the total expenditures of any fund must be approved by the board of trustees. Appropriations lapse at the end of each year.

## Schedule of Proportionate Share of the Net Pension Liability

Lincoln Soil & Water Conservation District's Proportionate Share of Net Pension Liability  
 PERA General Employees Retirement Fund  
 Required Supplementary Information (Last Ten Years\*)

| Fiscal Year<br>Ending | Proportion<br>(Percentage) of the<br>Net Pension Liability<br>(Asset) | Employer's<br>Share (Amount) of<br>the Net Pension<br>Liability (Asset) | State's   |           | Employer's Proportionate<br>Share of the Net Pension<br>Liability and the State's<br>Proportionate Share of the<br>Net Pension Liability<br>Associated with Lincoln<br>County SWCD | Covered Employee<br>Payroll (c) | Proportionate Share of<br>the Net Pension Liability<br>(Asset) as a Percentage<br>of Its Covered-Employee<br>Payroll<br>((a+b)/c) | Plan Fiduciary Net<br>Position as a<br>Percentage of the<br>Total Pension<br>Liability |
|-----------------------|---|---|---|-----------|--|---------------------------------|---|--|
|                       |   |   | Proportionate<br>Share (Amount) of<br>the Net Pension<br>Liability<br>Associated with<br>Lincoln County<br>SWCD | (b)       |  |                                 |   |  |
| June 30, 2017         | 0.0032%   | \$204,286   | 74.00   | \$204,360 | \$225,606  | 90.58%                          | 75.90%  |  |
| June 30, 2016         | 0.0033%   | \$267,944   | 217.00  | \$268,161 | \$226,682  | 118.30%                         | 68.91%  |  |
| June 30, 2015         | 0.0034%   | \$172,206   | 0.00  | \$172,206 | \$197,493  | 87.20%                          | 78.20%  |  |
| June 30, 2014         | 0.0017%   | \$192,597   | 0.00  | \$192,597 | \$211,037  | 91.26%                          | 78.75%  |  |

\* Option to provide RSI for ten years at transition or to provide RSI prospectively.

\*\* Schedule is to be provided prospectively beginning with the employer's fiscal year ended June 30, 2014.

## Schedule of Contributions

Lincoln Soil & Water Conservation District's Proportionate Share of Net Pension Liability  
 PERA General Employees Retirement Fund  
 Required Supplementary Information (Last Ten Years\*)

| Fiscal Year Ended | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contributions Deficiency (Excess) (a-b) | Covered-Employee Payroll (d) | Contributions as a Percentage of Covered-Employee Payroll (b/d) |
|-------------------|---------------------------------------|--|---|------------------------------|---|
| June 30, 2017     | \$16,920                              | \$16,920   | \$0                                     | \$225,606                    | 7.50%   |
| June 30, 2016     | \$17,001                              | \$17,001   | \$0                                     | \$226,682                    | 7.50%   |
| June 30, 2015     | \$14,812                              | \$14,812   | \$0                                     | \$197,493                    | 7.50%   |
| June 30, 2014     | \$15,564                              | \$15,564   | \$0                                     | \$211,037                    | 7.38%   |

\* Option to provide RSI for ten years at transition or to provide RSI prospectively.

\*\* Schedule is to be provided prospectively beginning with the employer's fiscal year ended June 30, 2014.

# RICHARD W. HOLMBERG, LTD

Certified Public Accountant

PO Box 262  
Slayton, MN 56172

Richard Holmberg, CPA

432 Legion Field Road  
Marshall, MN 56258

(507) 836-8505  
Fax 507-836-8505  
rwhcpa@frontiernet.net

Danielle Berg, CPA  
Jennifer Clarke  
Rita Anderson

Brooke Swart  
Molly Zobrist

(507) 532-9674  
Fax 507-532-9676  
rwhcpa@vastbb.net

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

Lincoln Soil and Water Conservation District  
200 S Co. Hwy 5, Suite 2  
Ivanhoe, MN 56142

We have audited the accompanying financial statements of the governmental activities and the major fund, the general fund, of the Lincoln Soil and Water Conservation District, as of and for the year ended December 31, 2017, which collectively comprise the District's financial statements and have issued our report dated September 19, 2017. 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.

### Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

*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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as items 2017-001 and 2017-002.

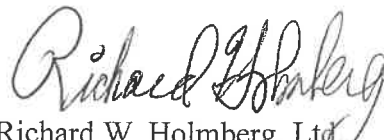
*A significant deficiency is a deficiency*, or combination of deficiencies, in internal control that is less severe than a material weakness, yet is important enough to merit attention by those charged with governance.

## Compliance and Other Matters

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

Lincoln SWCD's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended 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.

  
Richard W. Holmberg, Ltd.  
Certified Public Accountant

September 19, 2018



**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Prior Audit:**

2016-001. Finding – Lack of segregation of duties. Repeated as Finding 2017-001.

2016-002. Finding – Lack of Expertise by District Personnel to prepare accrual basis financial statements. Repeated as Finding 2017-002.

**CURRENT AUDIT YEAR FINDINGS AND RESPONSES**

**Internal Controls:**

**2017-001 Lack of segregation of duties**

Deficiency: The District has limited personnel available to perform accounting duties

Criteria: A good internal control contemplates an adequate segregation of duties so that no one individual handles transactions from inception to completion.

Cause: The District indicated that it has a limited number of employees. Therefore, the District cannot adequately segregate accounting duties.

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

Recommendation: While we recognize that the District is not large enough to permit adequate segregation of duties in all respects, it is important that you be aware of this deficiency and design internal controls to provide for proper segregation of duties where possible. This comment should not reflect negatively on the staff and is based solely on staff size.

Response: This is not unusual in a organization of this size. The District has studied the situation and found that it is not economically feasible to design the system of internal controls to adequately provide for the segregation of duties.

Corrective Plan of Action: The Supervisors will monitor personnel duties.

**2017-002 Lack of expertise by District personnel to prepare accrual basis financial statements**

Condition: The District personnel lack the expertise to prepare financial statements in accordance with generally accepted accounting principles. The District auditor prepared the financial statements as of December 31, 2017.

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

Cause: The District could put together the financial statements on the accrual basis of accounting, however, they have requested assistance in ensuring all required disclosures are properly included and changes made by GASB are implemented.

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

**LINCOLN SOIL AND WATER CONSERVATION DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**CURRENT AUDIT YEAR FINDINGS AND RESPONSES (Continued)**

Recommendation: The District 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 an organization of this size. It is not economically feasible for the District to provide the necessary training for personnel to acquire and maintain this expertise.

Corrective Plan of Action: The District will continue to have the auditor prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements.

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PO Box 262  
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Richard Holmberg, CPA

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## INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

Lincoln Soil and Water Conservation District  
200 S Co. Hwy. 5, Suite 2  
Ivanhoe, MN 56142


We have audited the governmental activities and the major fund, the general fund, of the Lincoln Soil and Water Conservation District, as of and for the year ended December 31, 2017 and have issued our report thereon dated September 19, 2018.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minnesota Statutes §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories except public indebtedness as the District does not have the authority to issue debt.

The results of our tests indicate that for the items tested, the Lincoln Soil and Water Conservation District complied with the material terms and conditions of applicable legal provisions. Further, for the items not tested, based on our audit and the procedures referred to above, nothing came to our attention to indicate that the Lincoln Soil and Water Conservation District had not complied with such legal provisions.

This report is intended solely for the information and use of the District's Board of Trustees, Office of the State Auditor and other federal and state grantor or cognizant agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

  
Richard W. Holmberg, Ltd  
Certified Public Accountant

September 19, 2018