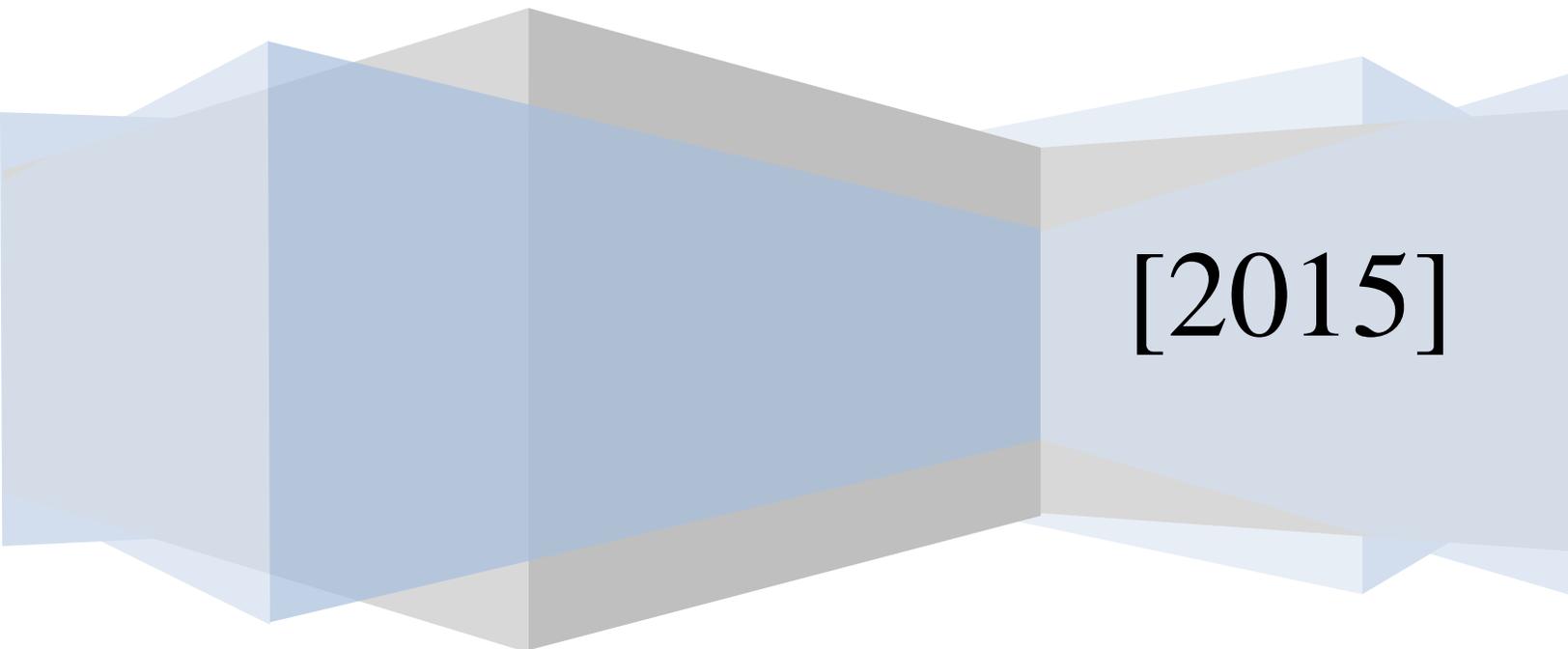


**YELLOW MEDICINE
SOIL AND WATER
CONSERVATION
DISTRICT**

**2015 ANNUAL
FINANCIAL REPORT**



[2015]

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2015
TABLE OF CONTENTS**

MANAGEMENT’S DISCUSSION AND ANALYSIS -----	1-6
▪ Page 1 includes: Financial Highlights; and Using This Annual Report;	
▪ Page 2 includes: Statement of Net Position & Statement of Activities; and Report of the SWCD’s General Fund;	
▪ Page 3 includes: The SWCD as a Whole – Governmental Activities - Statement of Net Position and Governmental Fund Balance;	
▪ Page 4 includes: Statement of Activities; SWCD Funds;	
▪ Page 5-6 includes: General Fund Budgetary Highlights; Capital Assets & Debt Administration Debt, Long-Term Liabilities; Economic Factors and Next Year’s Budget; and Contacting the SWCD’s Financial Management.	
GOVERNMENT-WIDE – FINANCIAL STATEMENTS:	
▪ Statement of Net Position and Governmental Fund Balance Sheet-----	7
▪ Statement of Activities/Gov. Revenues, Expenditures and Changes in Fund Balance-----	8
▪ Budgetary Comparison Schedule – Budget and Actual General Fund-----	9
FUND – FINANCIAL STATEMENTS:	
▪ Breakdown of County Revenue -----	10
▪ Unearned Revenue Breakdown-----	11
▪ Reconciliation Statements -----	12-13
NOTES TO THE FINANCIAL STATEMENT:	
Note 1: Summary of Significant Accounting Policies -----	14-22
A. Reporting Entity	
B. Government-Wide and Fund Financial Statements	
C. Measurement Focus, Basis of Accounting & Financial Statement Presentation	
D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance	
E. Use of Estimates	
F. Pensions	
Note 2: Stewardship, Compliance and Accountability-----	22
A. Budgetary Information	
B. Fund Balance Classification	
C. Excess of Expenditures Over Appropriations	
D. Debt Restrictions and Covenants	
Note 3: Detail Notes on All Funds -----	23-28
A. Deposits and Investments	
B. Accounts Receivable	
C. Changes in Capital Assets	
D. Accounts Payable	
E. Long-Term Debt	
Note 4: Other Information -----	28-29
A. Risk Management	
B. Commitments and Contingencies	
C. Federal Aids – Single Audit Act	
D. Operating Leases	
Note 5: Defined Benefit Pension Plans -----	29- 34
A. Plan Description	
B. Contributions	
C. Pension Costs	
D. Actuarial Assumptions	
E. Discount Rate	
F. Pension Liability Sensitivity	
G. Pension Plan Fiduciary Net Position	
Note 6: Defined Contribution Plan-----	34
Note 7: Required Supplementary Information-----	35

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

The Yellow Medicine Soil and Water Conservation District's (SWCD) discussion and analysis provides an overview of the SWCD's financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the SWCD's Financial Statements and Notes to the Financial Statements following this section.

FINANCIAL HIGHLIGHTS

- The SWCD's fund balance on the Governmental Revenues, Expenditures and Changes in Fund Balance increased due to the revenues exceeding the expenditures.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis (MDA-this section). This section relates mostly to the changes in the SWCD's finances and explains the Governmental Wide-Financial Statements in detail. The MDA is on pages 1-6.
- Financial Statements – pages 7-13.
The Governmental Wide-Financial Statements include a series of financial statements that provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending.

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

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

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

- The Notes to the Financial Statement provides information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes provide information such as: 1) Summary of Significant Accounting Policies; 2) Stewardship, Compliance and Accountability; 3) Detail Notes on All Funds; 4) Other Information; 5) Defined Benefit Pension Plans; 6) Defined Contribution Plan; 7) Required Supplementary Information. The Notes to the Financial Statement are on pages 14-35.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Our analysis of the Yellow Medicine Soil and Water Conservation District as a whole begins with page 7. One of the most important questions asked about the SWCD's finances is, "Is the SWCD as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the SWCD as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the SWCD's net position and changes in them. You can think of the SWCD's net position - the difference between assets and liabilities - as one way to measure the SWCD's financial health, or financial position. Over time, increases or decreases in the SWCD's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors to assess the overall health of the SWCD.

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

REPORTING THE SWCD'S GENERAL FUND:

Fund Financial Statements

The Yellow Medicine Soil & Water Conservation District presents only a general fund, which is a governmental fund. All of the SWCD's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the SWCD's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the SWCD's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Activities and the Statement of Net Position) and governmental funds through the reconciliation of these statements, which are on pages 12 and 13 (after the Fund Financial Statements). The financial reports can be found on pages 7 through 13 of this report.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

THE SWCD AS A WHOLE – GOVERNMENTAL ACTIVITIES

Statement of Net Position and Governmental Fund Balance

The Yellow Medicine Soil and Water Conservation District's net position decreased from one year ago. Our analysis below focuses on the net position (Table 1) of the SWCD's governmental activities.

**Table 1
Statement of Net Position**

<u>Governmental Activities</u>	<u>Balance Dec 31, 2015</u>	<u>Balance Dec 31, 2014</u>
Current Assets	\$449,991.55	\$346,136.20
Capital Assets	<u>\$ 38,756.51</u>	<u>\$ 44,537.64</u>
Total Assets	<u>\$488,748.06</u>	<u>\$390,673.84</u>
Deferred Outflows of Resources		
Defined Benefit Pension Plan	\$ 18,043.00	\$.00
Long-Term Liabilities Outstanding	\$136,003.60	\$ 72,034.73
Other Liabilities		
Net Pension Liability	\$129,563.00	
Compensated Absences	<u>\$ 30,875.24</u>	<u>\$ 28,590.85</u>
Total Liabilities	<u>\$296,441.84</u>	<u>\$100,625.58</u>
Deferred Inflows of Resources		
Defined Benefit Pension Plan	\$ 17,101.00	\$.00
Net Position:		
Investments in Capital Assets	\$ 38,756.51	\$ 44,537.64
Restricted	\$136,003.60	\$ 72,034.73
Unrestricted	<u>\$ 18,488.11</u>	<u>\$173,475.89</u>
Total Net Position	<u>\$193,248.22</u>	<u>\$290,048.26</u>

The net position for the SWCD's governmental activities decreased by approximately 33 percent from \$290,048.26 in 2014 compared to \$193,248.22 in 2015. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$18,488.11.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

Statement of Activities

Table 2 reflects changes in Governmental activities of the SWCD. It also reflects some of the actual SWCD's Charges for Services changes from 2014 to 2015.

Table 2

<u>Condensed Statement of Activities</u>	<u>Balance Dec 31, 2015</u>	<u>Balance Dec 31, 2014</u>
Revenue		
Program Revenues		
Charges for Services	\$ 52,621.10	\$ 42,227.76
Operating Grants and Contributions	\$307,745.02	\$291,868.13
General Revenues:		
Interest	\$ 810.12	\$ 560.60
Other Miscellaneous Revenue	<u>\$ 2,402.61</u>	<u>\$ 9,869.28</u>
Total Revenues	<u>\$363,578.85</u>	<u>\$344,525.77</u>
 Expenditures		
Conservation	<u>\$334,095.89</u>	<u>\$318,896.77</u>
Total Expenditures	<u>\$334,095.89</u>	<u>\$318,896.77</u>
 Increase (Decrease) in Net Position	 \$ 29,482.96	 \$ 25,629.00

Changes in revenues/expenditures from previous year included:

- Charges for Services increased by approximately 25 % due to an increase in tree and tree mat sales.
- Operating Grants and Contributions increased by 5% mainly due to federal funding for assistance with 1026's and Conservation Reserve Program in addition to a grant to assist with administering the Aquatic Invasive Species Program.
- Expenditures increased by approximately 5%.

THE SWCD'S FUNDS

As the SWCD completed the year, its general fund, as presented in the Governmental Fund Balance Sheet on page 8, reported a total fund balance of \$313,987.95 which is \$39,886.48 greater than last year's total of \$274,101.47.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

GENERAL FUND BUDGETARY HIGHLIGHTS

The SWCD made a revision to their budget in November, 2015. The Budgetary Comparison Schedule is found on page 9. The actual budget for revenues was below the final budgeted amount, partially due to a decrease in state funds. The state Clean Water Grant funding is given out in increments. When budgeting we anticipated that all grant funds and projects associated with these grants would be spent and completed by the deadline of December 31, 2015. The projects were not completed in this timeframe resulting in a decrease in revenues for state grants and a decrease in expenditures for state project expenses.

Even with these adjustments, the actual charges to expenditures and revenues were below the final budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

In 2015 the SWCD used the following schedules:

- Guide to Capital Assets
- Schedule of General Capital Assets and Changes for 2015
- Summary of Changes in Capital Assets

The SWCD's capital asset threshold is \$5,000. The Schedules of General Capital Assets and the Summary of Changes in General Capital Assets consists of capital assets over the threshold of \$5,000. At the end of 2015 the SWCD had \$143,852.59 invested in a broad range of capital assets, including buildings, land, vehicles, equipment and machinery. See chart below.

Table 3
Capital Assets at Year-end
(Net of Depreciation)

<u>Governmental Activities</u>	<u>Balance</u> <u>Dec 31, 2015</u>	<u>Balance</u> <u>Dec 31, 2014</u>
Assets		
Land	\$ 4,689.45	\$ 4,689.45
Building	\$ 51,626.50	\$ 51,626.50
Vehicles	\$ 50,900.00	\$ 50,900.00
Equipment/Machinery	<u>\$ 36,636.64</u>	<u>\$ 36,636.64</u>
Total Assets	<u>\$143,852.59</u>	<u>\$143,852.59</u>
(Net of Depreciation)	<u>\$ 38,756.51</u>	<u>\$ 44,537.64</u>

More detailed information about the SWCD's capital assets can be found on page 27 to the financial statement.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

DEBT

The SWCD has no debt.

LONG-TERM LIABILITIES

Long-term liability obligations include accrued vacation and sick leave for which employees are paid upon termination from the SWCD and net pension liability. Detailed information about the SWCD's long-term liabilities is presented in the Note 1D to the financial statement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The SWCD's elected officials considered many factors when setting the fiscal-year 2016 budget. Some of the economic factors taken into account for the 2016 budget included: sales of trees and tree mats, state funding (new grants: local capacity, buffer, water quality certification grant, etc.), federal funding and the county allocation. Expense factors include expenses, employee salary increases and health insurance benefits offered to the employees.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report was designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Yellow Medicine Soil and Water Conservation District, P.O. Box 545, 1000 10th Avenue, Suite 3, Clarkfield, Minnesota 56223 or call 320-669-4442 Ext. 3.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

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

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Adjustments See Notes	Statement of Net Position
<u>Assets</u>			
Cash and Investments	\$ 381,526.85		\$ 381,526.85
Accounts receivable	72.22		72.22
Interest receivable	291.10		291.10
Due from other governments	68,101.38		68,101.38
Inventory	.00		.00
Total Current Assets	449,991.55	\$0.00	449,991.55
<i>Noncurrent assets</i>			
Non-depreciable		4,689.45	4,689.45
Depreciable		139,163.14	139,163.14
Accumulated depreciation		(105,096.08)	(105,096.08)
TOTAL ASSETS	449,991.55	38,756.51	\$488,748.06
<u>Deferred Outflows of Resources</u>			
Defined Benefit Pension Plan		18,043.00	18,043.00
Combined Assets & Deferred Outflows of Resources	449,991.55	56,799.51	506,791.06
<u>Liabilities</u>			
<i>Current liabilities:</i>			
Accounts payable	\$.00		.00
Salaries payable	\$.00		.00
Unearned revenue	136,003.60		136,003.60
<i>Long-term liabilities:</i>			
Net Pension Liability		129,563.00	129,563.00
Compensated absences		30,875.24	30,875.24
Total Liabilities	136,003.60	160,438.24	296,441.84
<u>Deferred Inflows of Resources</u>			
Defined Benefit Pension Plan		17,101.00	17,101.00
Combined Liabilities and Deferred Inflows of Resources	136,003.60	177,539.24	313,542.84
<u>Fund Balance/Net Position</u>			
Nonspendable	.00	\$.00	.00
Restricted	136,003.60	(136,003.60)	.00
Unrestricted Assigned	70,979.30	(70,979.30)	.00
Unrestricted Committed	30,875.24	(30,875.24)	.00
Unrestricted Unassigned	76,129.81	(76,129.81)	.00
Total Fund Balance	\$ 313,987.95	(313,987.95)	.00
<u>Net Position</u>			
Invested in capital assets		38,756.51	38,756.51
Restricted		136,003.60	136,003.60
Unrestricted		18,488.11	18,488.11
Total Net Position		\$ 193,248.22	\$ 193,248.22

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

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

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 307,745.02	\$.00	\$ 307,745.02
Charges for Services	52,621.10	.00	52,621.10
Investment Earnings	810.12	.00	810.12
Miscellaneous	2,402.61	.00	2,402.61
Total Revenues	<u>363,578.85</u>	<u>.00</u>	<u>363,578.85</u>
Expenditures/Expenses			
Conservation			
Current	323,692.37	10,403.52	334,095.89
Capital Outlay	<u>.00</u>	<u>.00</u>	<u>.00</u>
Total Expenditures/Expenses	<u>323,692.37</u>	<u>10,403.52</u>	<u>334,095.89</u>
Net Change in Fund Balance	<u>39,886.48</u>	<u>(10,403.52)</u>	<u>29,482.96</u>
Fund Balance/Net Position January 1	274,101.47	15,946.79	290,048.26
Change in Accounting Principle	<u></u>	<u>(126,283.00)</u>	<u>(126,283.00)</u>
Fund Balance/Net Position December 31	<u>\$ 313,987.95</u>	<u>\$ (120,739.73)</u>	<u>\$ 193,248.22</u>

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

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

**BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2015**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Neg)
Revenues				
Intergovernmental				
County	\$ 141,176.00	\$ 141,176.00	133,449.96	\$ (7,726.04)
Local	9375.00	12,625.00	12,561.51	(63.49)
Federal	.00	61,800.00	61,500.00	(300.00)
State grant	114,411.00	156,931.00	100,233.55	(56,697.45)
Total intergovernmental	<u>264,962.00</u>	<u>372,532.00</u>	<u>307,745.02</u>	<u>(64,786.98)</u>
Charges for services	<u>30,990.00</u>	<u>52,823.00</u>	<u>52,621.10</u>	<u>(201.90)</u>
Miscellaneous				
Interest earnings	300.00	425.00	\$810.12	385.12
Other	750.00	1,220.00	2,402.61	1,182.61
Total miscellaneous	<u>1,050.00</u>	<u>1,645.00</u>	<u>3,212.73</u>	<u>1,567.73</u>
Total Revenues	<u>297,002.00</u>	<u>427,000.00</u>	<u>363,578.85</u>	<u>(63,421.15)</u>
Expenditures				
District operations				
Personnel services	222,523.16	214,823.16	212,850.13	(1,973.03)
Other services and charges	27,529.00	26,129.00	24,219.70	(1,909.30)
Supplies	6,150.00	8,700.00	7,968.28	(731.72)
Capital outlay	.00	\$.00	.00	.00
Total district operations	<u>256,202.16</u>	<u>249,652.16</u>	<u>245,038.11</u>	<u>(4,614.05)</u>
Project expenditures				
County	20,000.00	20,000.00	15,532.33	(4,467.67)
District	12,556.77	25,973.79	26,202.53	228.74
State	46,677.00	46,677.00	36,919.40	(9,757.60)
Total project expenditures	<u>79,233.77</u>	<u>92,650.79</u>	<u>78,654.26</u>	<u>(13,996.53)</u>
Total Expenditures	<u>335,435.93</u>	<u>342,302.95</u>	<u>323,692.37</u>	<u>(18,610.58)</u>
Net Change in Fund Balance	(38,433.93)	84,697.05	39,886.48	\$ (44,810.57)
Fund Balance – January 1	<u>274,101.47</u>	<u>274,101.47</u>	<u>274,101.47</u>	
Change in Accounting Principle				
Fund Balance – December 31	<u>\$ 235,667.54</u>	<u>\$ 358,798.52</u>	<u>\$ 313,987.95</u>	

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
BREAKDOWN OF COUNTY REVENUE
2015**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	<u>\$112,398.00</u>
WATER PLAN MONEY	<u>\$.00</u>
WETLAND MONEY	<u>\$ 5,844.63</u>
FEEDLOT MONEY	<u>\$.00</u>
ABANDONED WELL	<u>\$.00</u>
DNR SHORELAND	<u>\$.00</u>
OTHER (specify) AIS Grant	<u>\$ 15,207.33</u>
 TOTAL	 <u>\$133,449.96</u>

*Wetland Money:

FY2015 grant dollars carried over + FY2016 grant minus FY2016 unearned revenue = total
\$8,432.45 + \$8,778.00 - \$11,365.82 = \$5,844.63

**AIS Grant:

2014 grant dollars carried over + 2015 grant minus 2016 unearned revenue = total
\$13,998.58 + \$41,627.00 - \$40,418.25 = \$15,207.33

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

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

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
UNEARNED REVENUE BREAKDOWN
2015**

Balance of BWSR 2016 Conservation Delivery Grant:		<u>\$ 9,634.87</u>
Balance of BWSR 2016 Easement Delivery Grant		<u>\$ 4,724.22</u>
Balance of <u>unencumbered</u> BWSR Cost-Share Grants:	Fiscal Year 2016	<u>\$ 13,081.95</u>
	Fiscal Year 2015	<u>\$ 299.00</u>
	Fiscal Year 2014	<u>\$.00</u>

Balance of encumbered BWSR Cost-Share Grant (list each contract separately):

<u>FY</u>	<u>Contract No.</u>	<u>Contract Amount</u>	<u>T & A Encumbered</u>
2015	2015-01	\$7,558.00	\$849.04
2014	2014-07	\$6,335.00	\$865.58

Total of all Cost-Share Encumbrances \$ 15,607.62

Balance of County 2016 WCA Funds:		<u>\$ 8,778.00</u>
Balance of County 2015 WCA Funds:		<u>\$ 2,587.82</u>
Balance of County AIS Grant		<u>\$ 40,418.25</u>
Balance of 2016 BWSR Buffer Grant		<u>\$ 35,000.00</u>
Balance of 2016 Ag Water Quality Certification Grant		<u>\$ 5,871.87</u>
Balance of <u>other</u> funds being deferred (list if any):		<u>\$.00</u>

TOTAL OF ALL UNEARNED REVENUE: \$136,003.60

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

**RECONCILIATION OF GOVERNMENT FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
WITH STATEMENT OF ACTIVITIES
DECEMBER 31, 2015**

Total Net Changes in Fund Balances- Governmental Funds	\$ 39,886.48
Fixed assets expensed as capital outlay in governmental fund statements, capitalized as fixed assets in Statement of Net Position.	\$.00
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements.	\$ (5,781.13)
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.	\$ (2,284.39)
In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as element of pension expense. The fund financial statements report pension contributions as expenditures.	\$ <u>(2,338.00)</u>
Change in net position of government activities	<u>\$ 29,482.96</u>

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Total Fund Balance – Total Governmental Funds	\$ 313,987.95
Fixed assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expenses when acquired in the Statement of Revenues, Expenditures and Changes in Fund Balance.	\$ 38,756.51
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as a liability on the Statement of Net Position.	\$ (30,875.24)
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in funds.	\$ (129,563.00)
Pension related deferred inflows are not due and payable in the current financial resources, and therefore are not reported in funds.	\$ (17,101.00)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>\$18,043.00</u>
Net Position of Governmental Activities	<u>\$ 193,248.22</u>

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

YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The SWCD's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 20, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

During the year ended December 31, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

A. REPORTING ENTITY

The Yellow Medicine Soil and Water Conservation District (SWCD) was organized under the provisions of *Minnesota Statutes* Chapter 103C. The SWCD is governed by a five member Board composed of one member from each of the participating soil and water conservation districts, elected to four-year terms by the voters of the County.

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

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

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

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

Accounting principles generally accepted in the United States of America require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principals the SWCD does not have any component units.

YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the SWCD. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* (of which, the SWCD has none).

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) 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 (typically 60 days) to pay liabilities of the current period. Revenues subject to accrual are interest on investments and intergovernmental revenues. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. The SWCD also received an annual appropriation from the county which is recognized as revenue when received, unless it is prior to the period to which it applies. In that case, revenue is deferred until the appropriate period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING & FINANCIAL STATEMENT PRESENTATION (Continued)

The emphasis in fund financial statements is on major funds in the governmental activities categories. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The funds of the financial reporting entity are described below.

Governmental Funds:

General Fund - The general fund is the primary operating fund of the SWCD and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent they do not conflict or contradict guidance of the GASB.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the SWCD's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Deposits and Investments

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

Investments are carried at fair value, based on quoted market price at the reporting date. Investments as of December 31, 2015 are \$0.

YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories

Inventory is valued at lower of cost or market using the first-in, first-out method. The cost of other consumable materials and supplies on hand are material to the financial statements and the SWCD has therefore chosen to report these items as inventory this year. As of December 31, 2015 no inventory was carried over into 2016.

Prepays

There were no prepaids as of December 31, 2015.

Capital Assets

Capital assets are defined by the SWCD as assets with an initial individual cost of \$5,000 or more and an estimated life in excess of one year. Capital assets include property, plant, equipment, infrastructure assets and intangible assets are reported in the application governmental column of the government-wide financial statements.

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the SWCD as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide statement of net position.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Position. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

Land	Not Depreciated
Buildings	10 – 50 Years
Improvements	15 – 50 Years
Machinery and Equipment	3 – 20 Years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts related to their pension obligations. The length of the expense recognition period for deferred amounts is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their pension obligations. These deferred amounts represent differences between projected and actual earnings on pension plan investments and are recognized for a five-year period.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. There was no long term debt as of December 31, 2015.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences

Vacation and Sick Leave and Compensated Absence

Annual Leave: Will be granted to all regular employees on the basis of length of service. Annual leave is earned per month in the following manner:

0 - 5 years	8 hours per month - January through November 16 hours for December
6 - 15 years	13 hours per month - January through November 17 hours for December
16 plus years	17 hours per month - January through November 21 hours for December

Unused annual leave may be accumulated for use in succeeding years. The maximum number of annual leave hours an employee may carry over into the New Year (January) is 240 hours. Annual leave in excess of the limitation by the end of the year will be lost, unless the board makes an exception for special reasons. Annual leave is charged in units of one half or more hours. As an employee, you are expected to plan your vacations as far in advance as possible. If an employee wishes to take more than two weeks straight of annual leave, then he or she must have board approval prior to taking the vacation. Orientation employees will earn annual leave, but use will be restricted until the end of the orientation period. For the purpose of accruing annual leave employees starting employment before the 15th of the month shall be considered to have started on the first of the month and employees starting on the 15th of the month or after, shall be considered to have started on the first of the next month. Annual leave will be pro-rated for eligible part-time employees. After serving the 6 month orientation period, part-time employees without benefits may take up to 3 days of annual leave with pay per calendar year. The 3 days per calendar year cannot be carried over into the next year. Annual leave will be taken in ½ hour increments.

Sick Leave: Will be granted to all regular employees. Sick leave will be accumulated at the rate of eight (8) hours per month, except December in which sixteen (16) hours are earned. Sick leave will be pro-rated for regular part-time employees. There will be no limit on the accumulation of sick leave.

Severance Pay upon Termination or Resignation

All employees upon leaving employment in good standing, prior to the normal retirement date or whose employment is terminated shall be entitled to severance pay. Severance pay shall include the payment of accumulated vacation leave at the current rate of wage at separation not to exceed an amount as follows:

Less than 1 year	= Not eligible
Completion of 1 year	= 80 hours
Completion of 2 years	= 160 hours
Completion of 3 years or more	= 240 hours

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences

Vacation and Sick Leave and Compensated Absence (Continued)

Severance Pay upon Retirement

All employees upon leaving employment in good standing on or subsequent to the normal retirement date shall be entitled to severance pay. The normal retirement date is defined under PERA and/or Social Security and to be eligible the employee must have a minimum of 10 years of continued years of service for the SWCD. Severance pay shall include the payment of accumulated vacation leave, accumulated sick leave or a combination thereof at the current rate of wage at separation not to exceed 800 hours. Severance pay shall be paid in a manner mutually agreeable to the employee and employer over a period not to exceed five years from retirement or termination of employment. In the event that a retired or terminated employee dies before all or a portion of the severance pay has been disbursed, that balance due shall be paid to a named beneficiary or, lacking same, to the deceased estate. Severance pay may be paid into the employee's VEBA Account.

Compensated Absences Payable

Changes in compensated absences payable for the year ended December 31, 2015 are:

Balance January 1, 2015	\$28,590.85
Net changes in compensated absences	<u>+\$2,284.39</u>
Balance December 31, 2015	\$30,875.24

Fund Balance Classifications

Beginning with the year ending December 31, 2011, the SWCD implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

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

- Nonspendable fund balance consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Balance Classifications (Continued)

- Committed fund balance – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the SWCD Board. To be reported as committed, amounts cannot be used for any other purpose unless the SWCD Board removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned fund balance - consists of amounts intended to be used by the SWCD for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- Unassigned fund balance - consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

The SWCD uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the SWCD would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The SWCD has formally adopted a fund balance policy for the General Fund. The SWCD's policy is to maintain a minimum unassigned fund balance between the ranges of 35%-50% of budgeted operating expenditures for cash flow timing needs. At December 31, 2015, the unassigned fund balance of the General Fund was approximately 25% of the subsequent year's budgeted expenditures.

Net Position Classifications

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. PENSIONS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA’s fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgets: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by the SWCD for the General Fund. The SWCD made changes to their budget in November of 2015.

Encumbrances: The SWCD does not utilize encumbrance accounting.

B. FUND BALANCE CLASSIFICATION

At December 31, 2015, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>
Nonspendable	\$.00
Restricted	\$ 136,003.60
Unrestricted Assigned	\$ 70,979.30
Unrestricted Committed	\$ 30,875.24
Unrestricted Unassigned	\$ 76,129.81
Total Fund Balance	\$ 313,987.95

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The General Fund did not have excess expenditures over appropriations as of December 31, 2015.

D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

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

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The SWCD maintains a pooled cash and investment portfolio that is used by substantially all SWCD funds using the pooled deposit and investment concept. This concept provides the SWCD with the ability to maximize earnings on idle monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the SWCD.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

Deposits

In accordance with Minnesota Statutes, the SWCD maintains deposits at those depository banks authorized by the SWCD, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all SWCD deposits be insured, protected by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

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

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

YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk- Deposits - Custodial credit risk is the risk that in the event of a bank failure, the SWCD's deposits may not be returned to it. Deposits in financial institutions, reported as components of cash, cash equivalents, and certificates of deposit, had a bank balance of \$430,160.54 at December 31, 2015, that was fully insured by depository insurance or secured with collateral held by the SWCD's agent in its name. The carrying amount of these deposits at December 31, 2015 was \$381,526.85.

Investment Policy

The SWCD has an adopted investment policy, conforming to all applicable laws of the State of Minnesota, which serves as the guide to deposit and investment of operating funds which are managed within the SWCD's pooled cash and investment portfolio. This policy sets for the SWCD's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide to proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the SWCD's investment program as set forth by the investment policy is preservation of capital and protection of investment principal. Investment decisions are made under the assumption that except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Separate investment policies or agreements may exist to address proceeds from certain bond issuers or debt service funds in accordance with arbitrage rebate requirements.

The SWCD is authorized by Minnesota Statutes to invest idle funds as follows:

- a. Direct obligations or obligations guaranteed by the United States or its agencies.
- b. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c. General obligations of the State of Minnesota or its municipalities.
- d. Banker's acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e. Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
- f. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- g. Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investment Policy (Continued)

- h. Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United States insurance company and with a credit quality in one of the top two highest categories.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Under the SWCD's investment policy the SWCD is required to mitigate its exposure to interest rate risk as follows:

- Purchasing a combination of shorter and longer term investments.
- Timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation.
- Monitoring the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.
- Unless matched to a specific cash flow requirement, the SWCD will not directly invest in securities maturing more than five (5) years from the date of purchase.
- The average weighted maturity of the portfolio should not exceed three (3) years.
- Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with expected use of funds.

As of December 31, 2015, the SWCD had no investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the SWCD limits their investment options to those-authorized by the State of Minnesota as described above.

Concentrations of Credit Risk

The risk of loss attributed to the magnitude of the SWCD's investment in a single issuer. The SWCD places no limit on the amount that may be invested in any one issuer. As of December 31, 2015 the SWCD has no investments.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

For an investment, this is the risk that in the event of the failure of the counterparty, the SWCD will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2015, all deposits were insured or registered or the securities were held by the SWCD or its agent in the SWCD's name.

The following table represents the SWCD's cash balances as of December 31, 2015:

<u>Cash/Investment Type</u>	<u>Average Maturities</u>	<u>% of Total</u>	<u>Fair Value</u>
Checking Account	NA	22%	\$ 82,452.41
Savings Account	NA	10%	\$ 39,885.72
Certificates of Deposit	NA	<u>68%</u>	<u>\$259,188.72</u>
Total Cash		100%	<u>\$381,526.85</u>

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

Statement of Net Position	
Current Assets:	
Cash	\$ 122,338.13
Certificate of Deposit	<u>\$ 259,188.72</u>
Total	<u>\$ 381,526.85</u>

B. ACCOUNTS RECEIVABLE

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue in connection with resources that have been received, but not yet earned.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

B. ACCOUNTS RECEIVABLE (Continued)

Unearned Revenue

Unearned Revenue represents the unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) and county grants. Revenues will be recognized when the related program expenditures are recognized. Unearned revenue for the year ended December 31, 2015, consists of:

BWSR 2016 Conservation Delivery Grant	\$ 9,634.87
BWSR 2016 Easement Delivery Grant	\$ 4,724.22
BWSR 2016 Cost Share Grants	\$ 13,081.95
BWSR 2015 Cost Share Grants	\$ 8,706.04
BWSR 2014 Cost Share Grants	\$ 7,200.58
BWSR 2016 Buffer Grant	\$ 35,000.00
2016 Ag Water Quality Certification Grant	\$ 5,871.87
Wetland Conservation Act Funds	\$ 11,365.82
Aquatic Invasive Species Grant	<u>\$ 40,418.25</u>
Total Unearned Revenue	<u>\$136,003.60</u>

C. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2015 is as follows:

	Balance 1-1-15	Additions	Deletions	Balance 12-31-15
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 4,689.45	\$.00	\$.00	\$ 4,689.45
Total Capital Assets Not Being Depreciated	<u>\$ 4,689.45</u>	<u>\$.00</u>	<u>\$.00</u>	<u>\$ 4,689.45</u>
Capital Assets Being Depreciated:				
Buildings	\$ 51,626.50	\$.00	\$.00	\$ 51,626.50
Machinery & Equipment	\$ 36,636.64	\$.00	\$.00	\$ 36,636.64
Vehicles	\$ 50,900.00	\$.00	\$.00	\$ 50,900.00
Total Capital Assets Being Depreciated	<u>\$139,163.14</u>	<u>\$.00</u>	<u>\$.00</u>	<u>\$139,163.14</u>
Total Capital Assets	<u>\$143,852.59</u>	<u>\$.00</u>	<u>\$.00</u>	<u>\$143,852.59</u>
Less Accumulated Depreciation for:				
Buildings	\$ 24,011.95	\$ 1,624.38	\$.00	\$ 25,636.33
Machinery & Equipment	\$ 34,963.00	\$ 636.75	\$.00	\$ 35,599.75
Vehicles	\$ 40,340.00	\$ 3,520.00	\$.00	\$ 43,860.00
Total Accumulated Depreciation	<u>\$ 99,314.95</u>	<u>\$ 5,781.13</u>	<u>\$.00</u>	<u>\$105,096.08</u>
Total Capital Assets Being Depreciated, Net	<u>\$44,537.64</u>			<u>\$ 38,756.51</u>

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

D. ACCOUNTS PAYABLE:

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

E. LONG-TERM DEBT

The SWCD has no long-term debt as of December 31, 2015

NOTE 4. OTHER INFORMATION

A. RISK MANAGEMENT

The SWCD is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The SWCD participates in the Minnesota Counties Intergovernmental Trust to provide its general liability and property coverage. The Minnesota County Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for participating Minnesota counties.

Participants of Minnesota Counties Intergovernmental Trust are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to participating counties if a deficiency occurs. The Minnesota Counties Intergovernmental Trust is self-sustaining through member premiums and re-insures through commercial companies for excess claims. The SWCD is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies.

As of December 31, 2015, the SWCD did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The SWCD has not had any claims which exceeded its deductible during the past three years.

B. COMMITMENTS AND CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the SWCD participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning authority, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as the result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4. OTHER INFORMATION (Continued)

B. COMMITMENTS AND CONTINGENCIES – (Continued)

Litigation

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

While the outcome of a potential litigation cannot be predicted, due to the insurance coverage maintained by the SWCD, the SWCD feels that the settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the SWCD.

C. FEDERAL AIDS-SINGLE AUDIT ACT

The SWCD expended less than \$500,000 of federal financial assistance and is exempt from the audit requirements of the Single Audit Act and all other federal audit requirements.

D. OPERATING LEASES

The SWCD has a rental lease agreement for their tree storage building. The lease was written March 1st, 2001 and runs for 20 years. The rental fee is \$200.00 per year.

NOTE 5. DEFINED BENEFIT PENSION PLANS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expenses, 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. 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.

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the SWCD 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.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

A. Plan Description (Continued)

Benefits Provided (Continued)

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

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

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

1. GERF Benefits

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

B. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The SWCD was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The SWCD's contributions to the GERF for the year ended December 31, 2015, 2014 and 2013 were \$11,188, \$10,500, and \$10,390 respectively. The SWCD's contributions were equal to the required contributions as set by state statute.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

C. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the SWCD reported a liability of \$129,563 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The SWCD's proportion of the net pension liability was based on the SWCD's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the SWCD's proportion was .0025%.

For the year ended December 31, 2015, the SWCD recognized pension expense of \$13,685 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the SWCD reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 6,532
Changes in actuarial assumptions	\$ -	\$ -
Difference between projected and actual investment earnings	\$12,265	\$ -
Changes in proportion	\$ -	\$10,569
Contributions paid to PERA subsequent to the measurement date	\$ 5,778	
Total	\$18,043	\$17,101

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

C. Pension Costs (continued)

1. GERP Pension Costs (Continued)

\$5,778 reported as deferred outflows of resources related to pensions resulting from SWCD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	(\$2,634)
2017	(\$2,634)
2018	(\$2,634)
2019	\$3,066
2020	0
Thereafter	0

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

D. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
SWCD proportionate share of the GERF net pension liability:	\$203,719	\$129,563	\$68,321

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5. DEFINED BENEFIT PENSION PLANS (Continued)

G. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; 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.

NOTE 6. DEFINED CONTRIBUTION PLAN

Two SWCD Board members are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by 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 investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% 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% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the SWCD during fiscal year 2015 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$158.75	\$158.75	5%	5%	5%

**YELLOW MEDICINE SOIL AND WATER CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7. REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/15*	\$ 10,666	\$ 11,347	\$ (681)	\$ 152,351	7.53%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined June 30 of the previous year.

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/15*	0.0025%	\$ 129,563	\$ 147,601	88.78%	78.19%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined June 30 of the previous year.

See Independent Auditor's Report