

MORRISON



**SOIL AND WATER
CONSERVATION DISTRICT**

16776 Heron Road
Little Falls, MN 56345
(320) 616-2479 x-101
www.morrisonswcd.org

FINANCIAL STATEMENTS

December 31, 2015



MORRISON SOIL AND WATER CONSERVATION DISTRICT

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2015 MANAGEMENT'S DISCUSSION AND ANALYSIS

The Morrison 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 2015 Notes to the Financial Statements. (Beginning on Page 12)

USING THIS ANNUAL REPORT

This annual report consists of three parts:

1. Management's Discussion and Analysis (Page 2 to Page 8)
2. The Basic Financial Statements (Page 9 to Page 11)
3. Required Supplementary Information (Page 12 to Page 20)

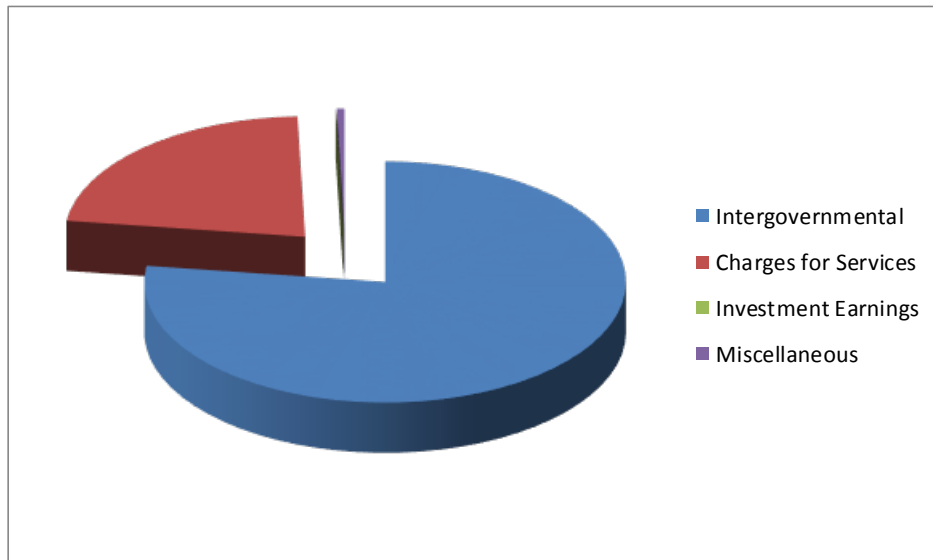
The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities (Pages 9 and 10) provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds. Since SWCD's are single-purpose, special-purpose government units, they combine the government-wide and fund financial statements into a single presentation.

THE STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

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 the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the SWCD's net position and changes in them. 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, however, such as changes in the overall state and local funding set by the Minnesota Legislator, to assess the overall health of the SWCD.

In the Statement of Net Position and the Statement of Activities, the SWCD presents Governmental Activities. All of the SWCD's basic services are reported here. Appropriations from the county and state finance most activities. However, for the most part, the SWCD has now had to rely on charges for basic services to cover the expenses that the county or state can no longer cover. (See Pie-Chart Below)



REPORTING THE DISTRICT'S GENERAL FUND (FUND FINANCIAL STATEMENTS & THE SWCD AS A WHOLE)

FUND FINANCIAL STATEMENTS

Our analysis of the SWCD's general fund is part of this report.

The fund financial statements provide detailed information about the general fund - not the SWCD as a whole. The SWCD presents only a general fund, which is a governmental fund. All of the SWCD's basic services are reported in the general fund, which focuses on how money flows into and out of 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 Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

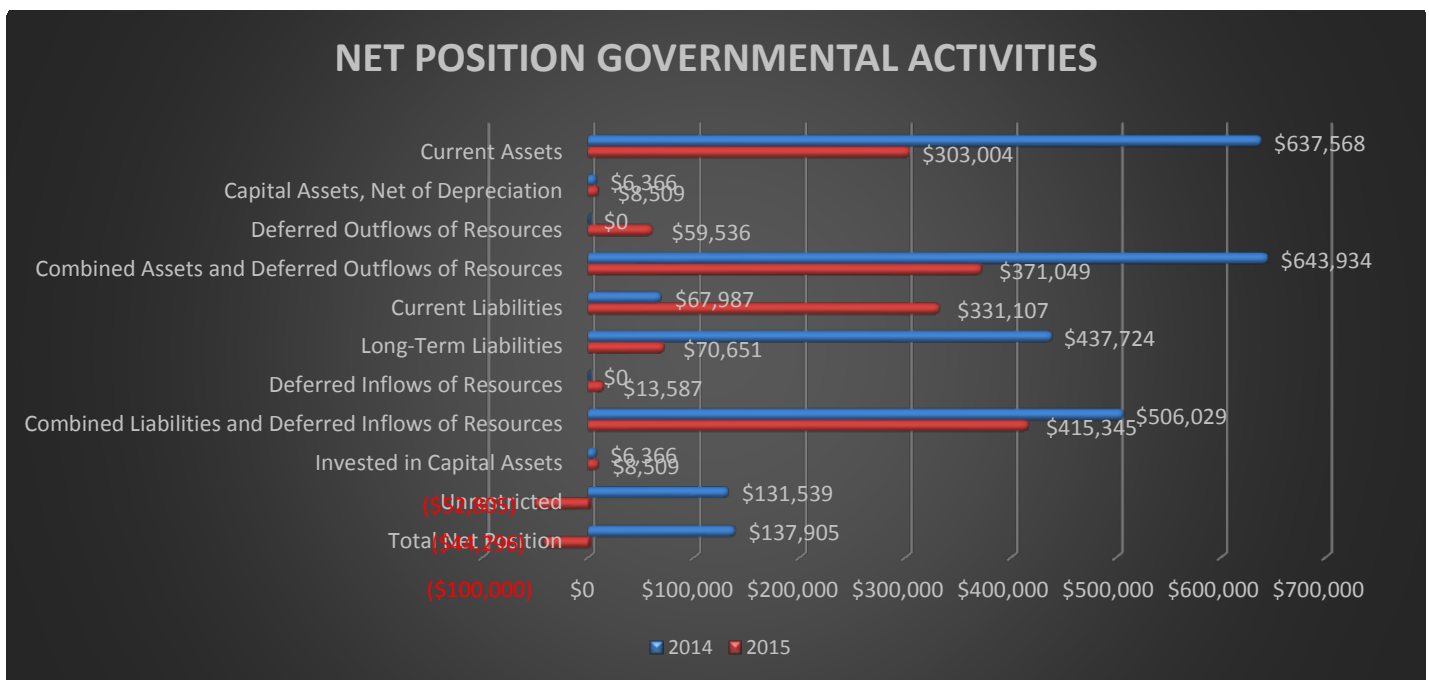
THE SWCD AS A WHOLE

Our analysis focuses on the net position and changes in Net Position of the SWCD's governmental activities. (See Table 1 Below)

NET POSITION (Table 1)

	<u>GOVERNMENTAL ACTIVITIES</u>	
	2014	2015
CURRENT ASSETS	\$ 637,568	\$ 303,004
CAPITAL ASSETS, NET OF DEPRECIATION	\$ 6,366	\$ 8,509
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ 59,536
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 643,934	\$ 371,049
CURRENT LIABILITIES	\$ 67,987	\$ 331,107
LONG-TERM LIABILITIES	\$ 437,724	\$ 70,651
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ 13,587
COMBINED LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 505,711	\$ 415,345
NET POSITION:		
INVESTED IN CAPITAL ASSETS	\$ 6,366	\$ 8,509
UNRESTRICTED	\$ 131,539	\$ (52,805)
TOTAL NET POSITION	\$ 137,905	\$ (44,296)

Net Position of the SWCD's Governmental Activities decrease by -132 % (\$137,905 compared to (\$44,296). (Also See Page 9; Statement of Net Position and Governmental Fund Balance Sheet) The primary reason for the decrease in the net position was due to the change in accounting principle, as referenced in Note 1 of the Notes to Financial Statements. 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 changing from \$131,539 on December 31, 2015 to (\$52,805) at the end of this year. (See Bar-Graph Below and Table 2 on Page 5)



CHANGES IN NET POSITION (Table 2)

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2014</u>	<u>2015</u>
<u>REVENUES:</u>		
INTERGOVERNMENTAL	\$ 335,361	\$ 359,441
CHARGES FOR SERVICES	\$ 55,431	\$ 104,135
INTEREST EARNINGS	\$ -	\$ 14
MISCELLANEOUS	\$ 3,661	\$ 2,386
TOTAL REVENUES	\$ 394,453	\$ 465,976
<u>EXPEDITURES</u>		
CONSREVATION	\$ 386,048	\$ 445,786
TOTAL EXPENDITURES	\$ 386,048	\$ 445,786
EXCESS OF REVENUES OVER (Under) EXPENDITURES	\$ -	\$ 20,190
CHANGE IN ACCOUNTING PRINCIPLES	\$ -	\$ (202,391)
INCREASE (DECREASE) IN NET POSITION	\$ 8,405	\$ (44,296)

The SWCD's Total Revenues increased by 18.13% \$71,523. The total cost of all Conservation Expenditures also increased by \$59,738, or more or less than 15.47%. The change in accounting principle represents the Net Pension Liability taken on by the SWCD. (Also See Page 10); Statement of Activities and Governmental Fund Revenues, Expenditures and Change in Fund Balance)

The SWCD is also the lead agency for the ACUB (Army Compatible Use Buffer). The District has budgeted \$175,000 for ACUB Revenue for 2016. This amount is hard to budget due to the timeframe involved with seeing an easement through to completion. The SWCD is projecting that this program could potentially see some funding cuts, however, will hopefully continue providing the SWCD with a major source of revenue in 2016.

GOVERNMENTAL ACTIVITIES

Revenues for the SWCD governmental activities increased \$71,523, while total expenses also increased by \$59,738. With the gain on the sale of Wetland Credit Bank Sales, the increase in net assets for governmental activities was narrowed. This is a definite continued improvement from 2014, with the SWCD noticed an increase in net assets due to the new adjustments of the Defined Benefit Pension Plan.

The management took major actions this year to avoid the level of deficit reported last year. These actions increased revenues and reduced expenses.

The cost of all governmental activities this year was \$445,786 compared to \$386,048 last year. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through the SWCD was only \$104,135 because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions (\$359,441). Overall, the SWCD's governmental program revenues, including intergovernmental aid and fees for services (increased in 2015 from \$394,453 to \$465,976) principally based on a increase in Total Assets. The SWCD paid for the remaining "public benefit" portion of governmental

activities with other revenues, such as interest, miscellaneous forms of revenue and a small portion of its undesignated fund balance.

GOVERNMENTAL ACTIVITIES (Table 3)

	<u>TOTAL COST OF SERVICES</u>			<u>NET COST OF SERVICES</u>	
	<u>2014</u>	<u>2015</u>		<u>2014</u>	<u>2015</u>
CONSERVATION	\$ 386,048	\$ 433,150		\$ 393,630	\$ 445,786
ALL OTHERS	\$ 0	\$ 0		\$ 0	\$ 0
TOTALS	\$386,048	\$433,150		\$393,630	\$445,786

The above Table 3 represents the Total Cost of Services for the SWCD’s five largest programs - General Cost Share, Clean Water Funds Grants, Wetland Conservation Act, ACUB and the Tree Program - as well as each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the SWCD by each of these functions.

THE SWCD’S FUNDS

As the SWCD completed the year 2015, its general fund (as presented in the Statement of Activities and Governmental Fund Revenues, Expenditures and Change in Fund Balance Sheet; Page 10) reported a combined fund balance of \$232,352 which is an increase from last year’s total of \$199,526. Included in this year’s total change in fund balance, however, is a surplus of \$32,826 in the SWCD’s General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The actual charges to appropriations (expenditures) were \$433,150, (Page 11; Budget Comparison Statement Budget and Actual) below the Original/Final Budgeted amounts. The most significant positive variance occurred in the SWCD’s Capital Outlay, Computer Expenditures, Vehicle Repairs / Gas Expenses and the Annual Refund from MCIT Insurance, where the lower district expenses resulted in a decrease in overall expenses.

On the other hand, resources available for appropriation (revenues) were \$465,976, also below the Original/Final Budgeted amount. Reduction in State funding has affected grant resources available for appropriation. These shortfalls were partially offset by an increase in public service fees. Landowners were paid using existing funds in the SWCD coffers, which also increased grant rollover resources available for appropriations to other landowners.

CAPITAL ASSET AND LONG TERM LIABILITIES

CAPITAL ASSETS

At the end of 2015, the SWCD had \$8,509 invested in a broad range of capital assets, including vehicles, computer technology and office improvements (See Table 4 Below.). This amount represents a net increase (including additions and deductions) of \$2,143 from last year.

CAPITAL ASSETS AT YEAR-END (Table 4)

	<u>GOVERNMENTAL ACTIVITIES</u>	
	2014	2015
LAND	\$ 0	\$ 0
BUILDINGS & IMPROVEMENTS	\$ 0	\$ 0
EQUIPMENT	\$ 6,366	\$ 8,509
TOTAL	\$ 6,366	\$ 8,509

GOVERNMENTAL ACTIVITIES

Notice on Table 4 above, additional capital assets in 2015 consisted of: One Lenovo Laptop Computer for District staff to use on and off site for projects such as rewrite of the Morrison SWCD Water Plan, State Cost Share site visits, etc. Also, 3 Dell Precision desk top computers were purchased for District staff. Two of the 3 computers were originally purchased in 2009. The third computer, previously furnished by NRCS, needed to be replaced. NRCS no longer furnishes computers to any SWCD staff.

The SWCD's fiscal-year 2016 capital budget calls for it to spend approximately \$1,000 for capital outlay projects. The District is in need of purchasing a new vehicle and another laptop, including supporting software in 2016. This purchase is necessary due to the new 2016 Buffer Law implementation. Also, the work load that will come with the new 2016 Local Capacity Services Grant. One new staff will be hired as well as a second laptop will be necessary to accommodate the higher workload. Therefore, the District budgeted \$25,000 for these needs. The SWCD has no plans to issue additional debt to finance any projects. More detailed information about the SWCD's Capital Assets is presented in Notes to the Financial Statements; Page 17; NOTE 2 – DETAILED NOTES; Section A.

LONG-TERM LIABILITIES

Obligations include accrued vacation pay and sick leave. More detailed information about the SWCD's Long-Term Liabilities is presented in Notes to the Financial Statements; Page 17; NOTE 2 – DETAILED NOTES; Section D.

The SWCD has also recognized a Net Pension Liability of \$269,491 in 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The SWCD's elected and appointed officials considered many factors when setting the fiscal-year 2016 budget, state aid, county aid and fees that will be charged for the for the business-type activities. The SWCD Board will also be watching the budget closely due to the state of the current economy to determine if changes will need to be made. Those amounts have been noted in the 2016 Budget. The SWCD is also expecting to receive over \$9,500 in ACUB T&A for work that was generated in 2015.

CONTACTING THE SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of Morrison SWCD'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, please feel free to contact:

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Little Falls, MN 56345

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**STATEMENT OF NET POSITION AND
 GOVERNMENTAL FUND BALANCE SHEET**

DECEMBER 31, 2015

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and Investments	\$ 246,164	\$ -	\$ 246,164
Accounts Receivable	\$ 56,840		\$ 56,840
Capital Assets:			
Equipment (Net of Accumulated Depreciation)	\$ -	\$ 8,509	\$ 8,509
Total Assets	\$ 303,004	\$ 8,509	\$ 311,513
Deferred Outflows of Resources			
Defined Benefit Pension Plan	\$ -	\$ 59,536	\$ 59,536
Combined Assets and Deferred Outflows of Resources	\$ 303,004	\$ 68,045	\$ 371,049
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ -		\$ -
Salaries Payable	\$ -		\$ -
Deposit - Tree Sales	\$ -		\$ -
Unearned Revenue	\$ 70,651		\$ 70,651
Long-Term Liabilities:			
Net Pension Liability	\$ -	\$ 269,491	\$ 269,491
Due Within One Year	\$ -	\$ 61,616	\$ 61,616
Total Liabilities	\$ 70,651	\$ 331,107	\$ 401,758
Deferred Inflows of Resources			
Defined Benefit Pension Plan	\$ -	\$ 13,587	\$ 13,587
Combined Liabilities and Deferred Inflows of Resources	\$ 70,651	\$ 344,694	\$ 415,345
FUND BALANCE / NET POSITION			
Nonspendable (Prepays, Inventories)	\$ 56,840	\$ (56,840)	\$ -
Assigned - Compensated Absences	\$ 61,616	\$ (61,616)	\$ -
Unassigned	\$ 113,897	\$ (113,897)	\$ -
Total Fund Balance	\$ 232,352	\$ (232,352)	\$ -
NET POSITION			
Invested in Capital Assets		\$ 8,509	\$ 8,509
Unrestricted		\$ (52,805)	\$ (52,805)
Total Net Position		\$ (44,296)	\$ (44,296)

Notes To The Financial Statements are an integral part of the basic financial statements.

Note: Two Wetland Bank Sale Landowners preferred to receive half of their payment in 2015 and the second half in 2016. Therefore, a General Journal Entry was created to defer this monies to 2016.



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**STATEMENT OF ACTIVITIES AND
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 AND CHANGE IN FUND BALANCE**

DECEMBER 31, 2016

	General Fund	Adjustments	Statement of Activities
<u>REVENUES</u>			
Intergovernmental	\$ 359,441	\$ -	\$ 359,441
Charges for Services	\$ 104,135	\$ -	\$ 104,135
Investment Earnings	\$ 14	\$ -	\$ 14
Miscellaneous	\$ 2,386	\$ -	\$ 2,386
Total Revenues	\$ 465,976	\$ -	\$ 465,976
<u>EXPENDITURES / EXPENSES</u>			
Conservation			
Current	\$ 428,770	\$ 17,016	\$ 445,786
Capital Outlay	\$ 4,379	\$ (4,379)	\$ -
Total Expenditures/Expenses	\$ 433,150	\$ 12,637	\$ 445,786
Excess of Revenues Over (Under)			
Expenditures/Expenses	\$ 32,827	\$ (12,637)	\$ 20,190
Fund Balance/Net Position January 1	\$ 199,526	\$ (61,621)	\$ 137,905
Change in Accounting Principle		\$ (202,391)	\$ (202,391)
Fund Balance/Net Position December 31	\$ 232,353	\$ (276,649)	\$ (44,296)

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**BUDGETARY COMPARISON STATEMENT
 BUDGET AND ACTUAL**

DECEMBER 31, 2015

	Original/Final Budget	Actual	Variance with Final Budget Positive (Neg)
<u>REVENUES</u>			
Intergovernmental			
County	\$ 148,925	\$ 150,425	\$ 1,500
Local	\$ -	\$ -	\$ -
Federal	\$ 33,540	\$ 21,760	\$ (11,780)
State Grant	\$ 180,938	\$ 187,256	\$ 6,318
Total Intergovernmental	\$ 363,403	\$ 359,441	\$ (3,962)
Charges for Services	\$ 188,900	\$ 104,135	\$ (84,765)
Miscellaneous			
Interest Earnings	\$ -	\$ 14	\$ 14
Other	\$ 5,000	\$ 2,386	\$ (2,614)
Total Miscellaneous	\$ 5,000	\$ 2,400	\$ (2,600)
Total Revenues	\$ 557,303	\$ 465,976	\$ (91,327)
<u>EXPENDITURES</u>			
District Operations			
Personnel Services	\$ 535,885	\$ 358,670	\$ 177,215
Other Services and Charges	\$ 26,900	\$ 27,291	\$ (391)
Supplies	\$ 2,000	\$ 1,033	\$ 967
Capital Outlay	\$ 1,000	\$ 4,379	\$ (3,379)
Total District Operations	\$ 565,785	\$ 391,373	\$ 174,412
Project Expenditures			
District	\$ 168,700	\$ 41,777	\$ 126,923
State	\$ 73,245	\$ -	\$ 73,245
Total Project Expenditures	\$ 241,945	\$ 41,777	\$ 200,168
Total Expenditures	\$ 807,730	\$ 433,150	\$ 374,580
Excess of Revenues Over (Under)			
Expenditures	\$ (250,427)	\$ 32,827	\$ 283,254
Fund Balance - January 1	\$ 166,534	\$ 166,534	\$ -
Change in Accounting Principle	\$ 202,391	\$ 202,391	\$ -
Fund Balance - December 31	\$ 118,498	\$ 401,752	\$ 283,254

Notes To The Financial Statements are an integral part of the basic financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. THE FINANCIAL REPORTING POLICIES** of the Morrison Soil and Water Conservation District conform to generally accepted accounting principles. The Governmental Accounting Standards District (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).
- B. CHANGES IN ACCOUNTING PRINCIPLES** - 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*.
- C. FINANCIAL REPORTING ENTITY** - The Morrison Soil and Water Conservation District is organized under the provisions of Minnesota Statutes Chapter 103C. The District is governed by a Board of Supervisors composed of one member from each of the participating Soil and Water Conservation Districts. The five members are nominated by voters of Morrison County and are elected to four-year terms.

The purpose of the Morrison Water and Soil Conservation 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 Morrison Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture 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 Morrison SWCD develops a work plan that is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

The District is not considered a part of Morrison 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.

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

D. BASIS OF PRESENTATION (FUND ACCOUNTING) - The accounts of the Morrison Soil and Water Conservation District are organized on the basis of a fund and two account groups, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

1. **GOVERNMENTAL FUNDS** - The General Fund is used to account for all revenues and expenditures incurred in operating the District.
2. **GENERAL FIXED ASSETS ACCOUNT GROUP** - This account group is used to record the District's general fixed assets, which include furniture and equipment.
3. **GENERAL LONG-TERM DEBT ACCOUNT GROUP** - This account group records earned but unpaid vacation and sick leave that has vested or is expected to vest.

E. GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements (i.e. The Statement of Net Assets and the Statement of Activities) report information on all the nonfiduciary activities of the District.

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

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

F. FUND FINANCIAL STATEMENTS - The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

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

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

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

Investment earnings and revenues from the sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received in cash because they usually are not measurable until then.

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

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

- G. BUDGET INFORMATION** - The District adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.
- H. USE OF ESTIMATES** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect: the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- I. ASSETS, LIABILITIES, UNEARNED REVENUE, CLASSIFICATION OF NET POSITION AND DEFERRED OUTFLOWS / INFLOWS OF RESOURCES** -

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.

Capital assets are reported on a net (depreciated) basis. General capital assets are valued at historical or estimated historical cost.

LIABILITIES - Long-term liabilities, such as compensated absences, are accounted for as an adjustment to net position.

UNEARNED REVENUE - Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

CLASSIFICATION OF NET POSITION - Net position in the government-wide financial statements is classified in the following categories:

INVESTMENT IN CAPITAL ASSETS - The amount of net position representing capital assets net of accumulated depreciation.

RESTRICTED NET POSITION - The amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

UNRESTRICTED NET POSITION - The amount of net position that does not meet the definition of restricted or investment in capital assets.

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 (expense/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, represents 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 over a five-year period.

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

NON-SPENDABLE - The non-spendable 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 items that are not expected to be converted to cash.

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

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

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

UNASSIGNED - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other fund balance classifications.

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

K. EXPLANATION OF ADJUSTMENTS COLUMN IN STATEMENTS -

- 1. CAPITAL ASSETS** - In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made if the District has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date, and reconciles to the amount reported in the Capital Assets Note.
- 2. LONG-TERM LIABILITIES** - In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absence Liability the District has as of the report date. See note on Long-Term Liabilities.
- 3. DEPRECIATION AND CHANGE IN COMPENSATED ABSENCES FOR THE YEAR** - In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in the note on Long-Term Liabilities; Page 18.

- L. VACATION AND SICK LEAVE** - Under the Morrison Soil and Water Conservation District's Employee Personnel Policy, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 8 to 16 hours per month.

The maximum vacation time that may be carried over at the end of the year shall be 240 hours.

Sick leave accrual is 8 hours per month, total 96 hours per year.

The maximum carry-over of sick leave from one year to the next per employee shall be 800 hours.

Wellness Incentive: Any employees carrying over 400 hours at the end of a calendar year, and has been with the District for more than 10 years, will deposit one-week or forty hours of sick leave pay into their Post-Retirement Health Care Savings Plan. Any employees carrying over 500 hours at the end of a calendar year, and has been with the District for 20 years or more, will deposit two weeks, or eighty hours of sick leave pay into their Post-Retirement Health Care Savings Plan.

Severance Pay: An employee who leave the employ of the SWCD in good standing (minimum notice and has been with the District a minimum of 10 years), shall receive severance payment of up to 25% of hours of unused sick leave in addition to any unused vacation leave. Employees that have been with the District for 25 years or more and leave in good standing, shall receive up to 500 hours of accrued unused Sick Leave and any unused accrued Vacation Leave.

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

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

NOTE 2 – DETAILED NOTES

A. CAPITAL ASSETS - Changes in capital Assets, Asset Capitalization and Depreciation.

	<u>BEGINNING</u>	<u>ADDITION</u>	<u>DELETION</u>	<u>ENDING</u>
EQUIPMENT	\$ 49,114	\$ 4,380	\$ 0	\$ 53,494
LESS: ACCUMULATED DEPRECIATION	\$ 42,748	\$ 2,237	\$ 0	\$ 44,985
NET CAPITAL ASSETS	\$ 6,366			\$ 8,509

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation is 5 to 10 years for Machinery and Equipment. Current year depreciation is \$2,237.

The District adopted a Capital Assets Policy of Threshold of \$500.00 for capitalizing assets purchased.

B. 2015 UNEARNED REVENUE BREAKDOWN - Unearned Revenue represents unearned advances from the Minnesota District of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2015, consists of the following:

BWSR Buffer Implementation Grant	\$25,000.00
BWSR Clean Water Funds Grants:	
CWF – Fish Trap SSTS	\$ 15,833.16
CWF – Royalton	<u>\$ 8,181.84</u>
TOTAL CLEAN WATER FUNDS	\$24,015.00
BWSR State Cost-Share Program	<u>\$21,636.38</u>
TOTAL UNEARNED REVENUE	<u>\$70,651.38</u>

C. 2015 MORRISON COUNTY REVENUE BREAKDOWN -

Annual County Allocation	\$ 95,000	
County Levy	\$ 7,018	
Environmental Reviews (P&Z)	\$ 4,500	
Local Water Plan	\$ 13,609	
Wetland Conservation Act NRBG	\$ 30,298	
TOTAL COUNTY REVENUE		<u>\$150,425</u>

D. LONG-TERM LIABILITIES - COMPENSATED ABSENCES PAYABLE -

Changes in long-term liabilities for the period ended December 31, 2015 are:

Balance December 31, 2015	\$67,986.91	
Net Changes in Compensated Absences	\$ 6,371.38	
BALANCE DECEMBER 31, 2015		<u>\$61,615.52</u>

E. DEPOSITS - Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 118A.03 requires that all District deposits be protected 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 institution's banking day, not covered by insurance or bonds.

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 of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

F. CUSTODIAL CREDIT RISK DEPOSITS is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2015, the District's deposits were not exposed to custodial credit risk.

NOTE 3 - DEFINED BENEFIT PENSION PLANS

A. PLAN DESCRIPTION – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) - The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. PERA administers the Public Employees Retirement Fund (PERF.) The plan and its benefits are established and administered in accordance with Minnesota Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that included financial statements and required supplementary information. This information and reports may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, MN, 55103-2088; or by calling (651) 296-7460 or 1 (800) 652-9026. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

B. FUNDING POLICY / PENSION COSTS - Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERA Coordinated Plan members, employees, were required to contribute 6.5% of their annual gross salary in 2015 through payroll deductions. The District is required to contribute 7.5% of that same salary. (6.5% = employer match, 1% = employer additional)

The District's contributions to PERA for the years ending were:

December 31, 2015	\$22,706
December 31, 2014	\$17,638
December 31, 2013	\$17,210

The District's contributions were equal to the contractually required contributions for each year as set by Minnesota Statute.

At December 31, 2015, the District reported a liability of \$269,491 for its proportionate share of the GERS'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 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, 2015, relative to the total employer contributions received from all of PERA's participating employers.

For the year ended December 31, 2015, the District recognized pension expense of \$22,706 for its proportionate share of GERS's pension expense.

At December 31, 2015, the District reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources from the following sources:

- 1) www.mnpera.org
- 2) Employers
- 3) Governmental Accounting Standards Board (GASB)
- 4) 2015 Financial Reporting Toolkit
- 5) Final GASB 68 Schedules and Audit Opinion for Fiscal Year Ended June 30, 2015
 - a. 9354 Morrison County SWCD
 - b. Schedule of Employer Allocations — Contributions - \$22,340
 - c. Schedule of Pension Amounts by Employer, Current Reporting Period Only
 - i. Beginning Net Pension Liability - \$211,387
 - ii. Ending Net Pension Liability (Single Discount Rate Assumption 7.90%)
 - iii. Total Deferred Outflows of Resources - \$50,173
 - iv. Total Deferred Inflows of Resources - \$13,587
 - v. Total Pension Expense - \$44,143

NOTE 4 - OPERATING LEASES

The District leases office space on a yearly basis. Under the current agreement, Total Expense of \$7,080 for 2015.

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of expenditures over budget – The General Fund had expenditures in excess of budget for the year as follows: Expenditures \$433,150; Budget \$807,730; Excess or Deficit \$374,580

NOTE 6 – RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, 12/31/2014	\$166,534	
Less or Plus: Excess of Revenue Over Expenditures	\$(38,338)	
Change in Accounting Principle	<u>\$202,391</u>	
GOVERNMENTAL FUND BALANCE (12/31/2015)		<u>\$ 330,587</u>
Adjustments from Fund Balance to Net Position:		
Plus: Capital Assets	\$ 8,509	
Plus: Deferred Outflow of Resources	\$ 59,536	
Less: Long-Term Liabilities	\$331,107	
Less: Deferred Inflows of Resources	<u>\$ 13,587</u>	
NET POSITION		<u>\$ (44,296)</u>

NOTE 7 – RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION

Change in Fund Balance	\$ (38,338)	
Capital Outlay	\$ 4,379	
Pension Expense, Net	\$ (21,152)	
The costs of capital assets are allocated over the capital assets' useful lives at the government-wide level	\$ (2,237)	
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned	\$ (6,371)	
Change in Accounting Principle	\$(202,391)	
NET CHANGE IN NET POSITION		<u>\$ (176,691)</u>