

COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
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DECEMBER 31, 2016**

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COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT

BOARD OF MANAGERS

Clark Lingbeek	Treasurer	Comfrey, Minnesota
Cody Duroe	Secretary	Jeffers, Minnesota
Daryl Tasler	Manager	Windom, Minnesota
Tom Muller	Chairman	Windom, Minnesota
Jeremy Nerem	Vice Chair	Westbrook, Minnesota



INDEPENDENT AUDITORS' REPORT

Board of Managers
Cottonwood Soil and Water Conservation District
Windom, Minnesota

We have audited the accompanying financial statements of the governmental activities and the major fund of Cottonwood Soil and Water Conservation District (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of Cottonwood Soil and Water Conservation District, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Cottonwood Soil and Water Conservation District, as of December 31, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter Regarding the Correction of an Error

As described in Note 9 to the financial statements, an error resulting in an overstatement of net position of Governmental Activities was discovered by management of the District during the current year. Accordingly, amounts reported for net position of Governmental Activities have been restated to correct the error. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Statement of Revenues, Expenditures, and Change in Fund Balances – General Fund – Budget and Actual, the Schedule of the District’s Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



CliftonLarsonAllen LLP

Rochester, Minnesota
February 3, 2020

BASIC FINANCIAL STATEMENTS

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**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
GOVERNMENTAL FUND BALANCE SHEET
AND STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 103,735	\$ -	\$ 103,735
Due from Other Governments	45,267	-	45,267
Capital Assets - Depreciable, Net of Accumulated Depreciation	-	64,140	64,140
Total Assets	149,002	64,140	213,142
DEFERRED OUTFLOWS OF RESOURCES			
Defined Benefit Pension Plan	-	166,324	166,324
Total Assets and Deferred Outflows of Resources	\$ 149,002	230,464	379,466
LIABILITIES			
Accounts Payable	\$ 1,727	\$ -	\$ 1,727
Accrued Liabilities	2,388	-	2,388
Unearned Revenue	81,356	-	81,356
Net Pension Liability	-	349,139	349,139
Compensated Absences	-	66,150	66,150
Total Liabilities	85,471	415,289	500,760
DEFERRED INFLOWS OF RESOURCES			
Defined Benefit Pension Plan	-	28,362	28,362
FUND BALANCE/NET POSITION			
Fund Balance:			
Unassigned	63,531	(63,531)	-
Total Fund Balance	63,531	(63,531)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 149,002		
Net Position:			
Net Investment in Capital Assets		64,140	64,140
Unrestricted		(213,796)	(213,796)
Total Net Position		\$ (149,656)	\$ (149,656)

See accompanying Notes to Financial Statements.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES AND STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	General Fund	Adjustments	Statement of Activities
PROGRAM REVENUES			
State	\$ 233,913	\$ -	\$ 233,913
Charges for Services:			
County	175,933	-	175,933
Local	262,092	-	262,092
Other	38,198	-	38,198
Total Program Revenues	<u>710,136</u>	<u>-</u>	<u>710,136</u>
GENERAL REVENUES			
Interest Income	17	-	17
Miscellaneous	3,721	-	3,721
Total General Revenues	<u>3,738</u>	<u>-</u>	<u>3,738</u>
Total Revenues	<u>713,874</u>	<u>-</u>	<u>713,874</u>
EXPENDITURES/EXPENSES			
Supplies	14,718	-	14,718
Compensation and Benefits	449,039	52,613	501,652
Other Services and Charges	113,832	(1,814)	112,018
Capital Outlay	69,484	(69,260)	224
State Cost Share	17,626	-	17,626
Misappropriated Funds	33,894	-	33,894
District	11,047	-	11,047
Depreciation	-	20,615	20,615
Total Expenditures	<u>709,640</u>	<u>2,154</u>	<u>711,794</u>
CHANGE IN FUND BALANCE/NET POSITION	4,234	(2,154)	2,080
FUND BALANCE/NET POSITION			
Beginning of Year, As Previously Stated	59,297	(180,271)	(120,974)
Prior Period Adjustment	-	(30,762)	(30,762)
Beginning of Year, As Restated	<u>59,297</u>	<u>(211,033)</u>	<u>(151,736)</u>
End of Year	<u>\$ 63,531</u>	<u>\$ (213,187)</u>	<u>\$ (149,656)</u>

See accompanying Notes to Financial Statements.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Cottonwood Soil and Water Conservation District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

Financial Reporting Entity

Cottonwood Soil and Water Conservation District was formed and operates pursuant to applicable Minnesota laws and regulations.

The District is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of Cottonwood County.

GAAP requires that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burdens on, the organization. These financial statements include all funds of the District. There are no other entities for which the District is financially accountable.

Basic Financial Statements

The Cottonwood Soil and Water Conservation District meets the definition of a Special-Purpose government and is involved in only one program, i.e., conservation of soil and water resources. Accordingly, the District is allowed to combine its government-wide statements with the fund statements. At December 31, 2016, and for the year then ended, see Note 10 and 11 for the reconciling items between the statements which are related to capital assets, pension, and long-term liabilities.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all financial activities of the District.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Certain items not properly included among program revenues are reported instead as general revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary, and fiduciary. Currently, the District has only governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. 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 the related cash flows. Charges for services revenue is recorded when earned. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are considered measurable when the amount of the transaction can be determined. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities for the current period. County and local grant revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Investment earnings are recorded when earned because they are measurable and available. Miscellaneous revenues (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. A six-month availability period is generally used for other fund revenue. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements in advance of the year in which the item is to be used.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The District reports the following major governmental funds:

General Fund – This is the District’s primary operating fund. It accounts for all financial resources of the general government.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Cash

Cash consists of a checking account and a savings account.

Accounts Receivable

Subsequent to year-end, the District entered into an agreement for restitution from a former employee for misallocation of funds which is recorded as accounts receivable. The District expects to recover this amount in full and no allowance for uncollectible accounts was recorded.

Due from Other Governments

Due from other governments is recorded for state, county, and local grant amounts that were received after year-end but all eligibility requirements had been met.

Unavailable Revenue

Unavailable revenue is revenue where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Unavailable revenue has been reported in the governmental fund for amounts related to the recovery of misallocated funds.

Unearned Revenue

Unearned revenue is recorded for amounts of state, county, and local grant amounts received prior to satisfying all eligibility requirements imposed by the providers.

Capital Assets

The cost of property, plant, and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. For the purpose of computing depreciation, the useful life for Machinery and Equipment is 5 to 10 years, Vehicles is 5 years, Buildings and Improvements 20 to 30 years, and 5 years for Office Equipment and Furniture. The District uses the threshold of \$1,000 for capitalizing assets purchased.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 4 to 20 hours per month. Sick leave accrual is 12 days per year. The limit on the accumulation of vacation leave is 272 hours and the limit on the accumulation of sick leave is 720 hours. Upon termination of employment from the District, employees are paid accrued vacation leave and up to 70% of accrued sick leave.

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. 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.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense) until that time. The District has one type of item that qualifies as this reporting element, pension related.

Deferred Inflows of Resources

In addition to liabilities, the financial statements 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 a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The District has one type of deferred inflow which is pension related.

Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable portions of fund balance relate to prepaid expenditures. Restricted fund balances are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balance represents constraints on spending that the District imposes upon itself by high-level formal action prior to the close of the fiscal period. The District's board of managers authorizes all assigned fund balances and their intended uses. The District currently doesn't report any assigned fund balances. Unassigned fund balances are considered the remaining amounts, usually in the General Fund, only.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the government-wide financial statements. Net investments in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the board of managers adopts an annual budget for the following year for the General Fund. Any modifications in the adopted budget can be made upon request of and approval by the board of managers. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Expenditures may not legally exceed budgeted appropriations at the total level for each function or activity. Management cannot amend the adopted budget, but must request the board of managers to transfer funds between functions or activities or adopt supplemental appropriations when the need arises. There were no supplemental appropriations in 2016.

NOTE 3 DEPOSITS

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

In accordance with Minnesota Statutes, the District maintains deposits at a depository bank as authorized by the board of managers.

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

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DEPOSITS (CONTINUED)

The District's deposits in the depository bank at December 31, 2016 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

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 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. It is required that the District sign authorizations releasing collateral once it is pledged.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	\$ 15,393	\$ -	\$ -	\$ 15,393
Machinery and Equipment	9,147	19,160	-	28,307
Vehicles	62,140	39,423	(15,462)	86,101
Office Equipment and Furniture	37,791	12,491	(10,701)	39,581
Total Capital Assets, Being Depreciated	<u>124,471</u>	<u>71,074</u>	<u>(26,163)</u>	<u>169,382</u>
Accumulated Depreciation for:				
Buildings and Building Improvements	(15,393)	-	-	(15,393)
Machinery and Equipment	(9,147)	(3,832)	-	(12,979)
Vehicles	(50,675)	(13,617)	15,462	(48,830)
Office Equipment and Furniture	(35,575)	(3,166)	10,701	(28,040)
Total Accumulated Depreciation	<u>(110,790)</u>	<u>(20,615)</u>	<u>26,163</u>	<u>(105,242)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 13,681</u>	<u>\$ 50,459</u>	<u>\$ -</u>	<u>\$ 64,140</u>

NOTE 5 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (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.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

1. General Employees Retirement Plan (GERF)

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

B. Benefits Provided

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

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

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

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 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 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.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. 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 2016. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The District contributions to the GERF for the year ended December 31, 2016 were \$19,828. The contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2016, the District reported a liability of \$349,139 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2016. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the District totaled \$4,501. The net pension liability was measured as of June 30, 2016 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion share was 0.0043% which was an increase of .0004% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the District recognized pension expense of \$57,223 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$1,342 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the General Employees Fund.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

At December 31, 2016, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ 28,362
Changes in Actuarial Assumptions	68,362	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	66,268	-
Changes in Proportion	19,557	-
Contributions Paid to PERA Subsequent to the Measurement Date	12,137	-
Total	<u>\$ 166,324</u>	<u>\$ 28,362</u>

\$12,137 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>District Pension Expense Amount</u>
2017	\$ 37,272
2018	37,272
2019	38,669
2020	12,612

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary Increases	3.25%, Average, Including Inflation
Investment Rate of Return	7.50%, Net of Pension Plan Investment Expense

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016 for the General Employees Fund:

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45 %	5.50%
International Equity	15	6.00%
Bonds	18	1.45%
Alternative Assets	20	6.40%
Cash	2	0.50%
Total	<u>100 %</u>	

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

Description	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's Proportionate Share of the GERF Net Pension Liability	\$ 495,880	\$ 349,139	\$ 228,263

H. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; 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 LONG-TERM LIABILITIES

The following is a summary of changes in the City's long-term debt for the year ended December 31, 2016:

	June 30, 2015	Additions	Retirements	June 30, 2016	Amount Due Within One Year
Compensated Absences Payable	\$ 47,609	\$ 66,150	\$ 47,609	\$ 66,150	\$ 66,150

COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Compensated Absences Payable

The amount of the estimated obligation at December 31, 2016 is \$66,150. The District's General Fund finances compensated absences on a pay-as-you-go basis.

NOTE 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors, and omissions; and natural disasters. The District has entered into a joint powers agreement with the Minnesota Counties Intergovernmental Trust (MCIT) to cover its liabilities for workers compensation and property and casualty. For other risk, the District carries commercial insurance. There were no significant reductions of insurance coverage from the previous year. There have been no settlements in excess of the District's insurance coverage for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the District in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining and the District pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the District in a method and amount to be determined by MCIT.

NOTE 8 COMMITMENTS AND CONTINGENT LIABILITIES

In connection with the normal conduct of its affairs, the District is involved in various claims, litigations, and judgments. It is expected that the final settlement of these matters will not materially affect the financial statements of the District.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 9 PRIOR PERIOD ADJUSTMENT

Capital assets of \$(30,762) that were incorrectly capitalized in prior year was corrected. The impact of this restatement is as follows:

	Net Position / Fund Balance As Previously Reported	Restatement	Net Position / Fund Balance As Restated
Government-Type Activities	\$ (120,974)	\$ (30,762)	\$ (151,736)

NOTE 10 RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance, December 31 \$ 63,531

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Buildings and Building Improvements	15,393
Machinery and Equipment	28,307
Vehicles	86,101
Office Equipment and Furniture	39,581
Less: Accumulated Depreciation	(105,242)

The District's net pension liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:

Net Pension Liability	(349,139)
Deferred Inflows of Resources - Pensions	(28,362)
Deferred Outflows of Resources - Pensions	166,324

The District's deferred inflows for unavailable revenue

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:

Compensated Absences Payable	(66,150)
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Net Position \$ (149,656)

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 11 RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION

Change in Fund Balance	\$ 4,234
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlays	71,074
Depreciation Expense	(20,615)
Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.	
	(34,072)
Change in Compensated Absences Payable	(18,541)
Change in Net Position	\$ 2,080

NOTE 12 JOINTLY GOVERNED ORGANIZATIONS

The Greater Blue Earth River Basin Alliance (GBERBA) was established by a joint powers agreement pursuant to Minnesota Statutes section 471.59. The purpose of the agreement was to optimize resources and increase efficiencies for the delivery of soil and water conservation services within the Greater Blue Earth River Watershed area. GBERBA is comprised of twenty-two member counties and soil and water conservation districts. Each member shares in the costs of providing soil and water conservation services.

The Southwest Prairie Technical Service Area (Southwest Prairie TSA) was established by a joint powers agreement pursuant to Minnesota Statutes section 471.59. The purpose of the agreement was to optimize resources and increase efficiencies for the delivery of soil and water conservation services within the service area known as SWCD Group 9. Southwest Prairie TSA is comprised of ten member soil and water conservation districts. Each member shares in the costs of providing all soil and water conservation services. Cottonwood Soil and Water Conservation District is also the fiscal host for Southwest Prairie TSA.

The Redwood-Cottonwood Rivers Control Area (RCRCA) was established by a joint powers agreement pursuant to Minnesota Statutes section 471.59. The purpose of the agreement was to optimize resources and increase efficiencies for the delivery of soil and water conservation services within the Redwood and Cottonwood rivers watershed area. RCRCA is comprised of eight member counties. Each member shares in the costs of providing all soil and water conservation services.

REQUIRED SUPPLEMENTARY INFORMATION

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**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
County	\$ 208,281	\$ 208,281	\$ 175,933	\$ (32,348)
Local	300,546	300,546	262,092	(38,454)
State Grants	203,800	203,800	233,913	30,113
Interest Income	20	20	17	(3)
Charges for Services	50,850	50,850	38,198	(12,652)
Miscellaneous	50	50	3,721	3,671
Total Revenues	<u>763,547</u>	<u>763,547</u>	<u>713,874</u>	<u>(49,673)</u>
EXPENDITURES				
Supplies	6,500	6,500	14,718	8,218
Compensation and Benefits	482,932	482,932	449,039	(33,893)
Other Services and Charges	87,175	87,175	113,832	26,657
Capital Outlay	10,000	10,000	69,484	59,484
State Cost Share	14,091	14,091	17,626	3,535
Misappropriated Funds	-	-	33,894	33,894
Project Expenses - District	31,350	31,350	11,047	(20,303)
Total Expenditures	<u>632,048</u>	<u>632,048</u>	<u>709,640</u>	<u>77,592</u>
NET CHANGE IN FUND BALANCES	<u>\$ 131,499</u>	<u>\$ 131,499</u>	4,234	<u>\$ (127,265)</u>
Fund Balance – Beginning of Year			<u>59,297</u>	
FUND BALANCE – END OF YEAR			<u>\$ 63,531</u>	

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST TWO YEARS**

	Measurement Date <u>June 30, 2016</u>	Measurement Date <u>June 30, 2015</u>
District - GERS		
District's Proportion of the Net Pension Liability	0.0043%	0.0039%
District's Proportionate Share of the Net Pension Liability	\$ 349,139	\$ 202,118
State's Proportionate Share of the Net Pension Liability Associated with the District	4,501	N/A
Total	<u>\$ 353,640</u>	<u>\$ 202,118</u>
District's Covered Payroll	\$ 264,373	\$ 227,329
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Payroll	132.06%	88.91%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.19%

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
LAST TWO YEARS**

	<u>2016</u>	<u>2015</u>
District - GERP		
Contractually Required Contribution	\$ 19,828	\$ 17,353
Contributions in Relation to the Contractually Required Contribution	<u>(19,828)</u>	<u>(17,353)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 264,373	\$ 227,329
Contributions as a Percentage of Covered Payroll	7.50%	7.63%

**COTTONWOOD SOIL AND WATER CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1 BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Each fall, the board of managers adopts an annual budget for the following year for the General Fund. Any modifications in the adopted budget can be made upon request of and approval by the board of managers. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Expenditures may not legally exceed budgeted appropriations at the total level for each function or activity. Management cannot amend the adopted budget, but must request the board of managers to transfer funds between functions or activities or adopt supplemental appropriations when the need arises. There were no supplemental appropriations in 2016.

NOTE 2 CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

General Employees Fund
2016

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

COMPLIANCE LETTER

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Cottonwood Soil and Water Conservation District
Windom, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and the major fund of Cottonwood Soil and Water Conservation District (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 3, 2020.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions of tax increment financing because the District does not have tax increment financing.

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

The purpose of this report is intended solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rochester, Minnesota
February 3, 2020

