

**NORTH CENTRAL MINNESOTA
SWCD'S JOINT POWERS BOARD
BRAINERD, MINNESOTA**

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2017

HUGH HEINECKE, CPA
Certified Public Accountants

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

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Hugh Heinecke, CPA
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

**To the Board of Supervisors
North Central Minnesota
SWCD's Joint Powers Board
Brainerd, Minnesota**

We have audited the accompanying financial statements of the governmental activities and the general fund of North Central Minnesota SWCD's Joint Powers Board, Brainerd, Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of North Central Minnesota SWCD's Joint Powers Board, Brainerd, Minnesota, as of June 30, 2017, and the respective changes in financial position, and, the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis on pages 3 through 5 and the required supplementary schedules for the defined benefit pension plan on pages 19 and 20 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 historic 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 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 obtain 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.

Hugh Hainsake, CPA

April 25, 2018

North Central Minnesota SWCD's Joint Powers Board
Brainerd, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS

The North Central Minnesota SWCD's Joint Powers Board's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Transmittal Letter and the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section) and the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. 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 District's operations in more detail than the government-wide statements by providing information about the District's general fund. Since District's are single-purpose, special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations.

The Statement of Net Position and the Statement of Activities

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

These two statements report the District's net position and changes in them. You can think of the District's net position — the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the state and local governmental funding, to assess the overall health of the District.

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

Reporting the District's General Fund

Fund Financial Statements

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

Our analysis focuses on the net position and change in net position of the District's governmental activities.

Net Position:

	Governmental Activities	
	6/30/17	6/30/16
Current and other assets	444,891	235,010
Capital assets	<u>70,306</u>	<u>84,544</u>
Total assets	515,197	319,554
Deferred outflows of resources	<u>42,008</u>	<u>59,146</u>
Combined Assets and Deferred Outflows of Resources	<u>557,205</u>	<u>378,700</u>
Current liabilities	427,717	225,706
Long-term liabilities	<u>175,759</u>	<u>167,496</u>
Total liabilities	603,476	393,202
Deferred inflows of resources	<u>44,822</u>	<u>9,708</u>
Combined Liabilities and Deferred Inflows of Resources	<u>648,298</u>	<u>402,910</u>
Net position		
Investment in capital assets	70,306	84,544
Unrestricted	<u>-161,399</u>	<u>-108,754</u>
Total net position	<u>-91,093</u>	<u>-24,210</u>

Net position of the District's governmental activities decreased by \$66,883. 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 changed from a \$108,754 deficit at June 30, 2016 to a \$161,399 deficit as of June 30, 2017.

Changes in Net Position:

	<u>Governmental</u> <u>Activities</u> <u>6/30/17</u>
Revenues	
Program revenues:	
Charges for services	61,111
State grants and entitlements	233,937
Other program revenues	750
General revenues:	
Other general revenues	<u>201</u>
Total revenues	<u>295,999</u>
Program expenses	
Conservation	<u>362,882</u>
Total expenses	<u>362,882</u>
Increase/(decrease) in net position	<u><u>-66,883</u></u>

THE DISTRICT'S GENERAL FUND

As the District completed the year, its general fund (as presented in the balance sheet) reported a fund balance of \$17,174, which is larger than last year's balance of \$9,304.

General Fund Budgetary Highlights

Over the course of the year, the Board did not revise the Joint Powers Board's budget.

The actual charges to appropriations (expenditures) were \$34,371 under the budgeted amounts. The most significant positive variance of \$43,967 occurred in the Other Services and Charges.

Capital Assets

At June 30, 2017, the Board had \$70,306 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$14,238 over last year.

Long-Term Liabilities

At June 30, 2017, the District had \$9,777 in accrued compensated absences and \$165,982 in net pension liability. This compares to \$5,106 on June 30, 2016 for accrued compensated absences and \$162,390 for net pension liability.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North Central Minnesota SWCD's Joint Powers Board, 322 Laurel Street, Suite 22, Brainerd, Minnesota 56401.

NORTH CENTRAL MINNESOTA
SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
As of June 30, 2017

	<u>General Fund</u>	<u>Adjustments See Notes</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 444,891	\$ -	\$ 444,891
Capital Assets:			
Equipment (net of accumulated depreciation)	<u> </u>	<u>70,306</u>	<u>70,306</u>
Total Assets	444,891	70,306	515,197
DEFERRED OUTFLOWS OF RESOURCES			
Defined benefit pension plan	<u> </u>	<u>42,008</u>	<u>42,008</u>
Combined Assets and Deferred Outflows of Resources	<u>\$ 444,891</u>	<u>\$ 112,314</u>	<u>\$ 557,205</u>
LIABILITIES			
Current Liabilities:			
Accrued payroll taxes payable	\$ 5,297	\$ -	\$ 5,297
Unearned revenue	422,420	-	422,420
Long-Term Liabilities:			
Net pension liability		165,982	165,982
Due after one year	<u> </u>	<u>9,777</u>	<u>9,777</u>
Total Liabilities	427,717	175,759	603,476
DEFERRED INFLOWS OF RESOURCES			
Defined benefit pension plan	<u> </u>	<u>44,822</u>	<u>44,822</u>
Combined Liabilities and Deferred Inflows of Resources	<u>\$ 427,717</u>	<u>\$ 220,581</u>	<u>\$ 648,298</u>
FUND BALANCE/NET POSITION			
Fund Balance:			
Unrestricted			
Unassigned	\$ <u>17,174</u>	\$ <u>(17,174)</u>	\$ <u> -</u>
Total Fund Balance	<u>\$ 17,174</u>	<u>\$ (17,174)</u>	<u>\$ <u> -</u></u>
Net Position:			
Investment in capital assets		\$ 70,306	\$ 70,306
Unrestricted		<u>(161,399)</u>	<u>(161,399)</u>
Total Net Position		<u>\$ (108,267)</u>	<u>\$ (91,093)</u>

See notes to basic financial statements.

NORTH CENTRAL MINNESOTA
 SWCD'S JOINT POWERS BOARD
 Brainerd, Minnesota

**STATEMENT OF ACTIVITIES AND
 GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
 For the year ended June 30, 2017

	General Fund	Adjustments See Notes	Statement of Activities
REVENUES			
Intergovernmental	\$ 233,937	\$ -	\$ 233,937
Charges for services	61,111	-	61,111
Investment earnings	201	-	201
Miscellaneous	750	-	750
Total Revenues	295,999	-	295,999
EXPENDITURES			
Conservation			
Current	285,061	77,821	362,882
Capital outlay	3,068	(3,068)	-
Total Expenditures	288,129	74,753	362,882
Excess of Revenues Over/ (Under) Expenditures	7,870	(74,753)	(66,883)
Fund Balance/Net Position-7/1/16	9,304	(33,514)	(24,210)
Fund Balance/Net Position-6/30/17	\$ 17,174	\$ (108,267)	\$ (91,093)

See notes to basic financial statements.

NORTH CENTRAL MINNESOTA
SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND

For the year ended June 30, 2017

	Budgeted Amounts		Actual	Favorable (Unfavorable) Budget Variance
	Original	Final		
REVENUES				
Intergovernmental				
State sources	\$ 365,000	\$ 365,000	\$ 233,937	\$ (131,063)
Charges for services	30,000	30,000	61,111	31,111
Investment earnings	-	-	201	201
Miscellaneous	-	-	750	750
Total Revenues	395,000	395,000	295,999	(99,001)
EXPENDITURES				
District Operations				
Personnel services	204,000	204,000	216,885	(12,885)
Other services and charges	108,835	108,835	64,868	43,967
Supplies	6,790	6,790	3,308	3,482
Capital outlay	2,875	2,875	3,068	(193)
Total Expenditures	322,500	322,500	288,129	34,371
Excess of Revenues Over/ (Under) Expenditures	72,500	72,500	7,870	(64,630)
Fund Balance - January 1	9,304	9,304	9,304	-
Fund Balance - December 31	\$ 81,804	\$ 81,804	\$ 17,174	\$ (64,630)

See notes to basic financial statements.

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the North Central Minnesota SWCD's Joint Powers Board conform to accounting principles generally accepted in the United State of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

A. Reporting Entity

The Board is organized under the provisions of Minnesota Statutes and is governed by a Board composed of one member from each of the participating Soil and Water Conservation Districts.

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

Each fiscal year the Board 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 Board's objectives.

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 Board does not have any component units.

B. Basis of Presentation – Fund Accounting

The accounts of the North Central Minnesota SWCD's Joint Powers Board are organized on the basis of a fund 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. Government Fund: General Fund

The General Fund is used to account for all revenues and expenditures incurred in operating the Board.

C. Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all the nonfiduciary activities of the Board. The Statement of Activities demonstrates the degree to which the direct expenditures of a given function or segment are offset by program revenues. Direct expenditures 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 expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows.

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide Financial Statements (Continued)

Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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.

The Board's governmental fund financial statements (general fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board 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 the 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. If the Board also receives an annual appropriation from the County, it is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

Investment earnings are recognized when earned. Other revenues 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 Board revenues. State project expenditures consist of grants to participants of the cost-Share Program and other state programs. Board project expenditures are costs of materials and supplies in Board projects.

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

D. Budget Information

The Board 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 Board does not use encumbrance accounting.

E. Use of Estimates

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

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

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

Liabilities – Long-term liabilities, such as compensated absences and net pension liability, are accounted for in the governmental activities at the government-wide level.

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 government-wide financial statements are classified into 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 Board 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 Board has only one type of item that qualifies for reporting in this category, amounts related to their pension obligation. These deferred amounts represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

Pension Plan – 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 funds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Classification of Fund Balances – Fund balance is divided into five classifications based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable fund balances cannot be spent either because they are not in a spendable form (i.e. inventories or prepaid amounts), or they are legally or contractually required to be maintained intact.

Restricted fund balance indicates amounts that can only be used for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.

Committed balances can only be used for specific purposes because of a formal action by the government's highest level of decision-making authority.

Assigned balances are intended to be used for specific purposes but they do not meet the criteria to be classified as restricted or committed.

Unassigned balances are the residual classification for the general fund (i.e. everything that is not in another classification or in another fund).

The Board applies restricted resources first when expenditures 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 use.

G. Vacation and Sick Leave

Under the Board's personnel policies, employees are granted vacation leave in varying amounts based on length of service. Vacation leave accrual varies from 8 to 12 hours per month. Sick leave accrues at 8 hours per month until 960 hours are accumulated, thereafter 4 hours per month are accrued. The limit on vacation accumulation is 192 hours and there is no limit on the accumulation of sick leave. Upon termination of employment from the JPB, employees are paid for all unused vacation time and -0- hours of sick leave.

H. Explanation of Adjustments Column in Statements

Capital Assets – In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made if the Board has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date, and reconciles to the amount in the Capital Assets Note.

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 and Net Pension Liability the Board has as of the report date.

Depreciation and Change in Compensated Absences for the Year – In the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus/minus the change in Compensated Absences and Net Pension Liability between the reporting year and previous year.

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Subsequent Events

In preparing the financial statements, the Board has evaluated events and transactions for potential recognition or disclosure through April 25, 2018, the date the financial statements were available to be issued.

2. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the Board to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statutes 118A.03 requires that all Board 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, note 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.

Custodial Credit Risk Deposits – Custodial risk is the risk that in the event of a financial institution failure, the Board's deposits may not be returned to it. The Board does not have a deposit policy for custodial credit risk. As of June 30, 2017, the Board's deposits were not exposed to custodial credit risk.

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 is as follows:

	<u>Balance</u> <u>06-30-16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06-30-17</u>
Equipment	\$ 119,319	\$ 3,068	\$ -	\$ 122,387
Accumulated depreciation	<u>(34,775)</u>	(17,306)	-	<u>(52,081)</u>
Net Capital Assets	<u>\$ 84,544</u>			<u>\$ 70,306</u>

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. The useful lives of property, plant and equipment for the purpose of computing depreciation is 5 to 10 years. Depreciation expense for the year ended June 30, 2017 is \$17,306.

The Board uses a threshold of \$1,000 for capitalizing assets purchased. Those physical assets under \$1,000 are expensed directly and not capitalized.

4. COMPENSATED ABSENCES PAYABLE

Compensated absences payable consists of accrued vacation payable to employees as of June 30, 2017. Changes for the year ended June 30, 2017 is as follows:

Balance - July 1, 2016	\$ 5,106
Net change in compensated absences	<u>4,671</u>
Balance - June 30, 2017	<u>\$ 9,777</u>

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017

5. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Defined Benefit Pension Plans - Statewide

Plan Description – The Board participates in a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plan is 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.

All full-time and certain part-time Board employees are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided - PERA provides retirement, disability, and death benefits. Benefits provisions are established by State Statute and can only be modified by the state legislature.

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

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

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination. 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 Basic members is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in the fiscal year 2017; the Board was required to contribute 7.5% for Coordinated Plan members. The Board's contributions to the General Employees Fund for the year ended June 30, 2017 were \$12,654. The Board's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs – At June 30, 2017, the Board reported a liability of \$165,982 for its proportionate share of the General Employees Fund's net pension liability. The Board's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of June 30, 2017

5. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Defined Benefit Pension Plans – Statewide (Continued)

liability associated with the Board totaled \$2,102. 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 actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the Board's contributions received by PERA during the measurement period for employer payroll 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 Board's proportion share was .0026 percent which was an increase of .0006 from its proportion measured June 30, 2015.

For the year ended June 30, 2017, the Board recognized pension expense of \$6,804 for its proportionate share of the General Employees Plan's pension expense. In addition, the Board recognized an additional \$61 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.

At June 30, 2017, the Board reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,470	\$ -
Changes in actuarial assumptions	-	16,640
Difference between projected and actual investment earnings	-	28,182
Changes in proportion	36,538	-
Contributions to PERA subsequent to the measurement date	-	-
Total	<u>\$ 42,008</u>	<u>\$ 44,822</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2018	\$ 3,286
2019	3,286
2020	3,286
2021	(7,045)
2022	-
Thereafter	-

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

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

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of June 30, 2017

5. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Defined Benefit Pension Plans – Statewide (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 one percent per year for all future years for the General Employees Plan.

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

The following changes in actuarial assumptions occurred in 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 of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. The ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate – The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.90% 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 the rates set in Minnesota Statutes. Based on that assumption, 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 benefits payments to determine the total pension liability.

Pension Liability Sensitivity – The following presents the Board'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 Board's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of June 30, 2017

5. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Defined Benefit Pension Plans – Statewide (Continued)

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Board's proportionate share of the GERF net pension liability:	\$257,451	\$165,982	\$ 91,099

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.pera.org.

6. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental coverage; and natural disasters. Property and casualty liabilities and worker's compensation are insured through the Minnesota Counties Intergovernmental Trust. The Board is covered for errors and omissions through the Minnesota Counties Intergovernmental Trust. The Board retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the basic 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 Board pays an annual premium based on its 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.

7. CONTINGENCIES

Board management is aware of no existing, pending, or threatened legal action against the Board at June 30, 2017.

The Board has received State grants for specific purposes that are subject to review and audit by the respective agencies. Such audits or reviews could lead to requests for reimbursements for expenditures disallowed under the terms of the grants and loans, however, Board management is of the opinion that any such reimbursements would be minor.

8. RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance – July 1		\$ 9,304
Less: Excess of Expenditures over Revenue		<u>7,870</u>
Governmental Fund Balance – June 30		\$ 17,174
Adjustment from Fund Balance to Net Position:		
Plus: Capital Assets		\$ 70,306
Plus: Deferred Outflows of Resources		42,008
Less: Long-Term Liabilities		-175,759
Less: Deferred Inflows of Resources		<u>-44,822</u>
Net Position		<u>\$ - 91,093</u>

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of June 30, 2017

**9. RECONCILIATION OF CHANGE IN FUND BALANCE TO
CHANGE IN NET POSITION**

Change in Fund Balance	\$ 7,870
Grant revenue for proportionate share of State of Minnesota's special funding situation	61
Capital Outlay	3,068
Pension Expense, net	-55,905
The cost of capital assets are allocated over the capital assets' useful lives at the government-wide level	-17,306
In the statement of activities certain operating expenses (including compensated absences) are measured by the amounts earned	<u>-4,671</u>
Change in Net Position	<u><u>\$-66,883</u></u>

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

**SCHEDULE OF CROW WING SWCD CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2017

Fiscal Year Ending	Statutorily Required Contribution(a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess)(a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
2017	\$ 12,654	\$ 12,654	\$ -0-	\$ 168,691	7.50%
2016	\$ 9,162	\$ 9,162	\$ -0-	\$ 122,160	7.50%
2015	\$ 8,326	\$ 8,326	\$ -0-	\$ 111,013	7.50%
2014	\$ 7,694	\$ 7,694	\$ -0-	\$ 109,780	7.01%

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

NORTH CENTRAL MINNESOTA SWCD'S JOINT POWERS BOARD
Brainerd, Minnesota

**SCHEDULE OF CROW WING SWCD PROPORTIONATE
SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION**
For the Year Ended June 30, 2017

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Assets)(a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage the Total Pension Liability
2017	0.0026%	\$ 165,982	\$ 168,691	98.39%	75.9%
2016	0.0020%	\$ 162,390	\$ 122,160	132.93%	68.9%
2015	0.0019%	\$ 98,468	\$ 111,013	88.70%	78.2%
2014	0.0020%	\$ 93,950	\$ 109,780	85.58%	78.8%

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

Hugh Heinecke, CPA
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

**To the Board of Supervisors
North Central Minnesota SWCD's
Joint Powers Boards
Brainerd, Minnesota**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of North Central Minnesota SWCD's Joint Powers Board, Brainerd, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated April 25, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the Board is not allowed to issue debt.

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

This report is intended for the information and use of those charged with governance and the Board of Supervisors, Minnesota Board of Water and Soil Resources, and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Hugh Heinecke, CPA

April 25, 2018