

ANOKA CONSERVATION DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2017

**ANOKA CONSERVATION DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Anoka Conservation District
Ham Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Anoka Conservation District, Ham Lake, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Anoka Conservation District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Anoka Conservation District as of December 31, 2017, and the respective changes in financial position 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 States of America require that the management's discussion and analysis on pages 3–10, the budgetary comparison statement on page 26, and defined benefit pension plan schedules on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2018, on our consideration of the Anoka Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Anoka Conservation District's internal control over financial reporting and compliance.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

August 20, 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS
ANOKA CONSERVATION DISTRICT
DECEMBER 31, 2017**

This report presents Anoka Conservation District's (ACD) financial activity for the year ending December 31, 2017 and includes three sections: Management's Discussion and Analysis, Financial Statements, and Notes to the Financial Statements. The discussion and analysis is written in lay terms and focuses on the current year's activities, resulting changes, and currently known facts. It should be read in conjunction with the ACD's financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

-) Although ACD derived 78 percent (\$1,488,820 of \$1,910,350) of its revenue from other governmental sources in 2017, all but \$148,992 was acquired competitively through grants or through annual contracts. The \$148,992 is provided by Anoka County through an annual appropriation that has remained stable over the last decade and represents 8 percent of ACD's budget. When preparing the budget, the Board of Supervisors adjusts for this high level of uncertainty by erring on the side of caution when speculating on which programs will be funded and the level of staffing that will be needed to implement projects. In a successful year, actual revenues and expenditures will far exceed those originally budgeted.
-) ACD's General Fund Balance decreased by \$6,652 in 2017.
-) ACD purchased its office headquarters in 2010. The ACD Board of Supervisors has elected to accelerate principal payments on the mortgage. In 2017, additional principal payments totaling \$43,032 were made. Under the terms of the mortgage, total future costs for principal is \$194,168 (\$17,893 due in 2018 and \$176,275 due after 2018). Of the \$427,777 value, \$150,000 is attributed to the land, which is not depreciable. The structures are depreciated over 50 years and experience \$5,556 in depreciation annually.
-) Rents from ACD's office headquarters totaled \$47,736 and associated expenses were \$31,304 plus \$57,628 in principal payments. Additionally, \$8,531 was added to the fund allocated for property maintenance resulting in an operating deficit of \$49,727. These figures do not include \$22,200 in annual rents ACD pays itself. These self-directed payments are necessary to ensure the office complex is sufficiently well funded to operate and to segregate conservation from land operation finances.
-) With the implementation of the GASB Statement No. 34 requirement that capital assets are depreciated, there was a 2017 depreciation of \$20,317, of which \$5,556 was for depreciation of the buildings at the office headquarters on McKay Drive in Ham Lake.
-) ACD holds two conservation easements for which landowners provided funds that were invested in a certificate of deposit. Each account has a base balance of \$10,000 (Kern Easement Administration and the Rum River Nature Area Easement Administration) for a total of \$20,000. Interest from these accounts covers the cost of annual site inspections. In the case of the Kern easement, the landowner also provided \$20,000 to establish a property management account. The management account is used for habitat restoration projects and may only be used for enhancement of ecosystems on the property. At year end, the Kern Easement Management account had a balance of \$14,365.
-) 2017 marked the eighth year of sales of the Rain Guardian pretreatment chambers developed by ACD. The gross sales were \$304,607 with related direct expenses not including labor of \$193,249 for net revenue of \$111,358.

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the 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 ACD as a whole and present a longer-term view of the ACD's finances. Fund financial 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 ACD's operations in more detail than the government-wide statements by providing information about the ACD's most significant funds. Since conservation districts are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. ACD has elected to present in this format even though ACD segregates the purchase of the office headquarters from the conservation activities. All expenses and revenues associated with ownership of the property at McKay Drive are reflected under Land Operation. The total value of this function is small relative to the overall function of the District and so does not warrant a separate presentation. Furthermore, long-term reductions in lease payments and revenues from renting office space in the office complex ultimately benefit conservation initiatives in Anoka County.

The Statement of Net Position and the Statement of Activities

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

These two statements report the conservation district's net position and changes in them. You can think of the conservation district's net position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) as one way to measure the conservation district's financial health, or financial position. Over time, increases or decreases in the conservation district's net position are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Position and the Statement of Activities, the conservation district presents Government activities. All of the conservation district's basic services are reported here. Fees for service, appropriations from the county, and state grants finance most activities. Fees for service are most often generated by supplying contract services to other local government entities. Typical services include natural resource monitoring, inventory and analysis, project planning, design, and installation coordination, and grant administration.

Reporting the Conservation District's General Fund

The Fund Financial Statements provide detailed information about the general fund, not the conservation district as a whole. ACD presents only a general fund, which is a governmental fund. All of conservation district's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the conservation district's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the conservation 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 Statement of Net Position and Governmental Fund Balance Sheet shows ACD's net position to be \$393,406, however much of this value is tied to the value of the land held by the ACD. Ideally, the Board of Supervisors would like to have sufficient unassigned funds to cover six months of operating expenses. Operating expenses are shown as "District Operations" between Personnel Services and Capital Outlay on the Budgetary Comparison Statement. Six months equates to \$420,426 in 2017. The current unassigned fund balance is \$142,355.

The Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balance is intended to show the differentiation of expenses between operational functions. As of 2010, ACD's purchase of the office complex that includes several rentable suites has added land operation as a function of the district. As a percentage of district operations it remains small at only 4.6 percent. Land operation revenues and expenses are segregated from other programs and services. This enables the ACD Board of Supervisors to set appropriate lease rates to ensure revenues are sufficient to cover annual and long-term property management costs. To this end, ACD pays itself rent for the District's occupied space each month. For accounting purposes this inflates revenues and expenses in a manner that requires an adjustment in the year-end financial statements to reduce both revenues and expenses by \$22,200, the amount of rents paid by ACD to ACD under Expenditures: Conservation: Current and Revenue: Rents.

The Conservation District as a Whole

The analysis below focuses on the net position and changes in net position of the conservation district's governmental activities shown in Table 1 and Table 2. All activities of the conservation district ultimately benefit conservation and all activities are governmental due to the fact that conservation districts are special purpose governmental entities. Charges for services include product sales and fees for service to the private sector. Fees charged to other local government entities such as watershed management organizations and watershed districts for natural resource monitoring, inventory, and analysis as well as project management are recorded as intergovernmental revenues.

The conservation district's total net position decreased from \$417,152 to \$393,406 in 2017. 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 \$(188,295) at December 31, 2016 to \$(229,517) at December 31, 2017.

Table 1: Net Position

	Governmental Activities	
	2017	2016
Current Assets	\$ 1,207,145	\$ 981,278
Capital Assets, net of depreciation	622,923	605,447
Deferred Outflows of Resources	241,067	313,098
Combined Assets and Deferred Outflows of Resources	<u>\$ 2,071,135</u>	<u>\$ 1,899,823</u>
Current Liabilities	\$ 826,554	\$ 590,738
Long-Term Liabilities	761,697	846,422
Deferred Inflows of Resources	89,478	45,511
Combined Liabilities and Deferred Inflows of Resources	<u>\$ 1,677,729</u>	<u>\$ 1,482,671</u>
Investment in Capital Assets	\$ 622,923	\$ 605,447
Unrestricted	<u>(229,517)</u>	<u>(188,295)</u>
Total Net Position	<u>\$ 393,406</u>	<u>\$ 417,152</u>

The conservation district's total revenues increased by \$544,142 (40 percent). The total cost of programs and services increased by \$598,334 (45 percent). Both of these increases are due largely to large conservation project installations being completed, or largely so, in 2017. Table 3 shows Oak Glen Pond Expansion and IESF \$528,705 increase; Lower Rum River WMO Retrofits \$53,128 increase; Carp Management \$47,742 increase; and Revetments on the Rum – CPL \$43,594 increase; total \$581,765 in project cost increases. These increases in costs are offset by decreases in other project costs: Martin/Typo Lake Carp Barriers \$36,168 decrease; Rum River WRAPP \$149,191 decrease; and Coon Lake Retrofits \$42,480 decrease.

Table 2: Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues		
Intergovernmental	\$ 1,489,017	\$ 959,988
Charges for Services	34,824	8,370
Product Sales	333,128	348,071
Interest Earnings	5,842	2,034
Rental Income	47,736	47,942
Total Revenues	\$ 1,910,547	\$ 1,366,405
Expenses		
Conservation	\$ 1,902,989	\$ 1,305,331
Land Operation	31,304	30,628
Total Expenses	\$ 1,934,293	\$ 1,335,959
Increase (decrease) in Net Position	\$ (23,746)	\$ 30,446

Governmental Activities

The cost of all governmental activities this year excluding land operation was \$1,902,989 compared to \$1,305,331 last year. However, the amount that our taxpayers ultimately financed for these activities through county taxes was only \$174,263 (\$148,992 for general services and \$25,271 for project installation). Service contracts with various local government entities generated \$240,129 in revenue that was also likely borne by Anoka County taxpayers. Much of the conservation district's revenue is from customers or sources outside of Anoka County: Product sales \$333,128; rents \$47,736; Interest Earnings \$5,842; Regional Government \$49,285; and State Government \$1,025,143. Overall, the conservation district's governmental program revenues, including intergovernmental aid and fees for services, increased in 2017 from \$1,366,405 to \$1,910,547, principally due to an increase in large construction projects funded primarily with state funds.

Table 3 presents the cost of each of the conservation district's programs that exceeds \$20,000 in annual expenses as well as each program's net cost. The largest cost of any non-construction program is personnel. Since all personnel expenses are accounted for as a single category for the conservation district as a whole in the financial transactions, this section utilizes the conservation district's Program Register. The Program Register allocates all personnel expenses to each of the district's programs per the hours documented in daily staff hours' logs. Overhead expenses such as rent, utilities, training, and supervisor compensation are allocated to programs in proportion to the personnel expense needed for the program. Direct program expenses are also recorded against the program in the Program Register. In 2017 there were 91 separate programs and services included in the Program Register. The net cost shows the amount of county general services funds that were allocated to the projects to balance its budget. Programs with a negative net cost generated positive revenue.

Table 3: Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Oak Glen Pond Expansion and IESF	\$531,022	\$2,317	\$2,055	-
Rain Guardian Sales	\$272,036	\$252,571	(\$32,571)	(\$71,794)
Wetland Conservation Act	\$126,213	\$126,726	\$61,767	\$63,461
McKay Property Management	\$100,437	\$62,310	-	(\$7,832)
Ditch 20 Watershed Analysis	\$54,009	\$14,144	\$1,653	-
Lower Rum River WMO Retrofits	\$53,128	-	\$3,137	-
Carp Management – Martin & Typo Lakes	\$47,742	-	\$2,630	-
Lake George Watershed Analysis	\$47,041	\$10,427	-	-
Revetments on the Rum - CPL	\$43,594	-	\$8,370	-
Martin/Typo Lake Carp Barriers	\$35,328	\$71,496	\$8,450	\$290
Revetments on the Rum - OHF	\$30,631	\$33,817	\$10,801	\$5,580
Trees Sales	\$30,231	\$21,668	\$1,745	(\$2,039)
Campus Groundwater Conservation Program	\$29,264	\$4,712	\$4,783	-
Mississippi River Bank Stabilization	\$28,839	-	\$2,711	-
Beach Property Enhancement	\$27,881	-	\$5,895	-
MN Ag. Water Quality Certification Program	\$26,171	\$47,105	\$8,240	\$2,514
Subsurface Sewage Treatment Systems	\$24,535	\$14,950	\$331	-
Golden Lake Pond IESF	\$23,623	-	\$2,368	-
Buckthorn – Boot Lake SNA	\$22,656	\$17,458	\$1,387	(\$8,789)
Stream Water Quality Monitoring	\$21,615	\$22,929	(\$17,687)	(\$15,521)
Totals	\$1,575,996	\$702,630	\$76,065	(\$34,130)

2016 Activities That No Longer Meet the \$20,000 Expense Threshold

Rum River WRAPP	\$13,705	\$162,896	-	(\$9,966)
Coon Lake Retrofits	\$1,608	\$44,088	\$242	\$2,743
Reference Wetland Monitoring	\$10,355	\$29,644	(\$1,445)	\$671
Isanti SWCD Manager Contract	\$4,023	\$26,640	\$1,002	\$5,222
Isanti SWCD Green Lake Designs	-	\$22,440	-	-

The Conservation District’s General Fund

As the conservation district completed this year, its general fund reported a fund balance of \$398,484, which is below last year’s total of \$405,136. Included in this year’s total change in fund balance is a deficit of \$6,652 in the conservation district’s General Fund. The primary reasons for the General Fund’s surplus mirror the government activities analysis highlighted on the preceding pages.

General Fund Budgetary Highlights

Over the course of the year, the Board of Supervisors revised the conservation district’s budget several times. Budget amendments fall into one of four categories: updating contract amounts with local funding partners, addition of grant awards, updates to personnel due to staff turnover and mid-year changes in compensation rates, and updates to pass through funds based on project installation schedule updates.

The ACD's budget is composed primarily of competitive grants and service fees. Of the \$1,910,350 in 2017 revenue, \$169,757 is relatively stable (\$148,992 in county general services and \$20,765 in state conservation delivery). Revenues derived from grants and fees for service are very speculative. As such, ACD's budget is highly elastic and subject to potentially dramatic changes in district operations, so it is critical for the Board of Supervisors to continually review and update the budget. Late year budget updates reduce the variances from actual revenues and expenditures.

In total there was a (\$41,960) revenue variance, which is 2.1 percent of budgeted revenues. Of this variance, (\$46,619) is due to a shortfall in revenues from local governments for project matching funds for two projects that didn't progress as far through the design process as anticipated. Implementation of the MN Agricultural Water Quality Certification Program for five metro counties had a variance of (\$14,966). These negative variances were offset by approximately \$19,293 in revenue variances from county and state governments, charges for services, and product sales.

In total, there was a \$22,933 expenditure variance. Expenditure variance of \$45,356 in District Project Expenditures and \$7,817 in State Project Expenditures were offset in part by negative variances of \$23,411 in District Operations and \$7,279 in District Products.

Capital Asset and Long-Term Liabilities

Capital Assets

At the end of 2017, the conservation district had \$622,923 in capital assets, including equipment, buildings, and land. This amount represents a net increase (including additions, deletions and depreciation) of \$17,477 or 2.9 percent to last year.

Table 4: Capital Assets at Year End

	Governmental Activities	
	2017	2016
Land	\$303,000	\$303,000
Buildings	238,888	244,444
Equipment	81,035	58,003
Totals	\$622,923	\$605,447

This year's \$37,793 of additions included \$3,420 in equipment (three Ott Water Level Data Loggers), \$611 for a Dell laptop work station, \$900 for server memory upgrades, \$630 for a projector, \$643 for a Garmin GPS, \$5,999 for a Polaris Ace ATV, \$5,108 for a water velocity meter, \$750 for an ArcGIS software license, and \$19,732 for vehicles (Dodge Dakota and Landrover). The conservation district's fiscal-year 2018 capital budget calls for it to spend \$43,500 for precipitation monitoring equipment, additional vehicles, and a pole building.

Long-Term Liabilities

Long-term obligations include accrued flexible time off, compensatory time, and the mortgage for the McKay property. The District secured the McKay property in August of 2010. The property was in foreclosure and held by Trustone Financial Credit Union. Trustone Financial financed a mortgage that enabled the district to purchase the property. The Anoka County Attorney's Office was consulted prior to purchasing the property. It was the opinion of the county attorney that ACD had the authority to purchase the property under Minnesota Statute 103C.331 Powers of the District Board Subd.8. Acquisition and maintenance of property, which states "A district may acquire any rights or interest in real or personal property by option, purchase, exchange, lease, gift, grant, bequest, devise, or otherwise. It may maintain, operate, administer, and improve any

properties acquired. It may receive income from properties and expend the income to implement this chapter and sections 103F.401 to 103F.455. It may sell, lease, or otherwise dispose of any of its property or interests.” The District does not have the authority to levy taxes or issue bonds, i.e. issue debt. The mortgage is backed by the value of the property and not by the public trust and so the mortgage does not constitute a financial obligation to the taxpayer should the district become insolvent. Rather, the property would simply return to holder of the mortgage. More detailed information about the conservation district’s long-term liabilities is presented in the Statement of Net Position and in Note 2 to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

The conservation district’s Board of Supervisors has opted to utilize the United States Office of Personnel Management’s general pay schedule for the locality pay area of Minneapolis-St. Paul-St. Cloud, MN-WI as a means to determine annual inflation rates. These rates are considered in conjunction with the conservation district’s compensation plan detailed in the personnel section of the ACD Handbook, specifically the sections on target wages, compensation increases, and performance adjustments. Wages are ultimately set by the Board of Supervisors with consideration of these wage setting policies along with funds available for wage adjustments once fund balance goals have been attained. The conservation district’s policy on fund balances and wage adjustment consideration is explained in the operations section of the ACD Handbook, which is reviewed, updated and approved annually. Staff wages are the primary driver of program expenses and therefore the budgeting process for all programs, services and grants. When setting the fiscal-year 2018 budget and fees that will be charged for services the Board of Supervisors considers total personnel expenses including wages, benefits, and operational overhead and divides that total only across billable hours. By dividing total expenses only across actual billable hours, the conservation district is better able to generate sufficient revenue to balance the budget. This is critical for the conservation district since we do not have taxing authority to fill budget shortfalls.

Contacting the Conservation District

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of conservation district’s finances and to show the conservation district’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Anoka Conservation District Manager Chris Lord at 1318 McKay Drive NE Suite 300 Ham Lake, MN 55304, 763-434-2030 ext. 13, Chris.Lord@AnokaSWCD.org.

**ANOKA CONSERVATION DISTRICT
HAM LAKE, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017**

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and Cash Equivalents	\$ 893,554	\$ -	\$ 893,554
Accounts Receivable	36,086	-	36,086
Due From Other Governments	197,442	-	197,442
Inventory	71,824	-	71,824
Prepaid Items	8,239	-	8,239
Capital Assets:			
Building (net of accumulated depreciation)	-	541,888	541,888
Equipment (net of accumulated depreciation)	-	81,035	81,035
Total Assets	<u>1,207,145</u>	<u>622,923</u>	<u>1,830,068</u>
Deferred Outflows of Resources			
Defined Benefit Pension Plan	-	241,067	241,067
Combined Assets and Deferred Outflows of Resources			
	<u>\$ 1,207,145</u>	<u>\$ 863,990</u>	<u>\$ 2,071,135</u>
Liabilities			
Current Liabilities:			
Deposit on Sales	\$ 36,491	\$ -	\$ 36,491
Accrued Payroll Liabilities	17,018	-	17,018
Unearned Revenue	716,685	-	716,685
Easement Endowments	34,365	-	34,365
Security Deposits	4,102	-	4,102
Mortgage Payable	-	17,893	17,893
Long-term Liabilities:			
Net Pension Liability	-	542,634	542,634
Compensated Absences	-	42,788	42,788
Mortgage Payable	-	176,275	176,275
Total Liabilities	<u>808,661</u>	<u>779,590</u>	<u>1,588,251</u>
Deferred Inflows of Resources			
Defined Benefit Pension Plan	-	89,478	89,478
Combined Liabilities and Deferred Inflows of Resources			
	<u>\$ 808,661</u>	<u>\$ 869,068</u>	<u>\$ 1,677,729</u>
Fund Balance/Net Position			
Fund Balance			
Nonspendable - Inventory	\$ 71,824	\$ (71,824)	\$ -
Nonspendable - Prepaids	8,239	(8,239)	-
Assigned	176,066	(176,066)	-
Unassigned	142,355	(142,355)	-
Total Fund Balance	<u>\$ 398,484</u>	<u>\$ (398,484)</u>	<u>\$ -</u>
Net Position			
Investments in Capital Assets		\$ 81,035	\$ 81,035
Unrestricted		312,371	312,371
Total Net Position		<u>\$ 393,406</u>	<u>\$ 393,406</u>

Notes are an integral part of the basic financial statements.

**ANOKA CONSERVATION DISTRICT
HAM LAKE, MINNESOTA
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 1,488,820	\$ 197	\$ 1,489,017
Product Sales	333,128	-	333,128
Charges for Services	34,824	-	34,824
Interest Earnings	5,842	-	5,842
Rental Income	47,736	-	47,736
Total Revenues	<u>\$ 1,910,350</u>	<u>\$ 197</u>	<u>\$ 1,910,547</u>
Expenditures/Expenses			
Land Operation			
Current	\$ 21,239	\$ -	\$ 21,239
Debt Service, Principal	57,628	(57,628)	-
Debt Service, Interest	10,065	-	10,065
Conservation			
Current	1,790,277	112,712	1,902,989
Capital Outlay	37,793	(37,793)	-
Total Expenditures/Expenses	<u>\$ 1,917,002</u>	<u>\$ 17,291</u>	<u>\$ 1,934,293</u>
Excess of Revenues Over (Under) Expenditures/Expenses	\$ (6,652)	\$ (17,094)	\$ (23,746)
Fund Balance/Net Position January 1	<u>\$ 405,136</u>	<u>\$ 12,016</u>	<u>\$ 417,152</u>
Fund Balance/Net Position December 31	<u><u>\$ 398,484</u></u>	<u><u>\$ (5,078)</u></u>	<u><u>\$ 393,406</u></u>

Notes are an integral part of the basic financial statements.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Summary of Significant Accounting Policies

The financial reporting policies of the Anoka Conservation District conform to generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

Financial Reporting Entity

The Anoka Conservation District is organized under the provisions of Minnesota Statutes Chapter 103C. The District is governed by a Board of Supervisors composed of five members nominated by voters of the District and elected to four-year terms by the voters of the County.

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

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

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

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

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 of the nonfiduciary activities of the District.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as 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.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures are recorded when a liability is incurred under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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.

Interest earnings are recognized when earned. Other revenues are recognized when they are received in cash because they usually are not measurable until then.

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.

Budget Information

The District adopts an estimated revenues and expenditures budget for the general fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require Board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

Use of Estimates

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

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

Assets

Cash and cash equivalents are invested, to the extent available, in authorized investments. In accordance with the provisions of GASB Statement No. 31, the District reports investments at fair value in the statements. In accordance with the provisions of GASB Statement No. 31, the District has reported all investment income, including changes in fair value of investments, as revenue in the operating statements.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Receivables are collectible within one year. Consignment receivables of \$29,375 are expected to be collected in the future.

Inventory value is stated at cost or the lesser of fair market value.

Prepaid expenses are for items with future benefit over the next twelve months.

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

Unearned Revenue

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

Long-Term Liabilities

Compensated Absences and Net Pension Liability are accounted for as an adjustment to net position.

Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments; and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or investment in capital assets.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (expense) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

pension obligations. These deferred amounts represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period. They also include differences between expected and actual experience, changes in assumptions and changes in proportion, which are recognized over a four-year period.

Pensions

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

Classifications of Fund Balances

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

Nonspendable – the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

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

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

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

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through August 20, 2018, the date the financial statements were available to be issued.

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 District has capital assets. This adjustment equals the net book balance of capitalized assets as of the report date and reconciles to the amount reported in the Capital Assets Note.

Long-Term Liabilities: In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the total Compensated Absences and Net Pension Liability the District has as of the report date. See note on Long-Term Liabilities.

Debt Service - Principal: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, an adjustment is made for the principal payments shown as an expenditure under the General Fund.

Depreciation, Net Pension Expense and Change in Compensated Absences for the year: In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the net pension expense and the change in Compensated Absences between the reporting year and the previous year.

Vacation and Sick Leave

Under the District's personnel policies, employees are granted Flexible Time Off (FTO) in varying amounts based on their length of service. FTO may be used for vacation, illness or other personal matters. FTO accrual varies from eighteen to thirty-four days per year for full time employees. An additional Extended Medical Benefit (EMB) is accrued at a rate of eight days per year for full time employees. The limit on the carryover of accumulated FTO from one year to the next is 240 hours and EMB is 720 hours. Upon separation from the District in good standing, employees are paid accrued FTO up to 240 hours. EMB is not paid out upon separation.

Risk Management

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. To cover these risks, Anoka County, on behalf of the District, has purchased commercial insurance. Property and casualty liabilities, workers' compensation, and errors and omissions are insured through the League of Minnesota Cities Insurance Trust. The District retains risk for the deductible portion of the insurance. The amounts of these deductibles are considered immaterial to the financial statements.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 2 - Detailed Notes

Capital Assets

Changes in Capital Assets, Asset Capitalization and Depreciation.

	<u>Beginning</u>	<u>Addition</u>	<u>Deletion</u>	<u>Ending</u>
Cost				
Equipment	\$ 81,527	\$ 37,793	\$ -	\$ 119,320
Land	303,000	-	-	303,000
Buildings	<u>277,777</u>	-	-	<u>277,777</u>
Total	\$ 662,304			\$ 700,097
Accumulated Depreciation				
Equipment	\$ 23,524	\$ 14,761	\$ -	\$ 38,285
Buildings	<u>33,333</u>	5,556	-	<u>38,889</u>
Total	\$ 56,857			\$ 77,174
Equipment - net	\$ 58,003			\$ 81,035
Buildings & Land - net	<u>547,444</u>			<u>541,888</u>
Net Capital Assets	\$ 605,447			\$ 622,923

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method. For the purpose of computing depreciation, the useful life for Machinery and Equipment is 5 to 10 years. Current year depreciation is \$20,317.

The District uses the threshold of \$500 for capitalizing assets purchased.

Unearned Revenue

Unearned revenue represents unearned advances from the Minnesota Board of Water and Soil Resources (BWSR) for administrative service grants and for the cost-share program. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2017, consists of the following: BWSR Cost Share Programs \$22,214; Clean Water Funds \$353,722; BWSR Service Grants \$20,765; BWSR Local Capacity \$137,166; BWSR WCA Funds \$63,191; Rum River Stabilization \$22,568; SRWMO Funds \$13,982; MPCA Funds \$45,074; Other Grants \$38,003; Total \$716,685.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Long-Term Liabilities

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

	January 1, <u>2017</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2017</u>
Net Pension Liability	\$ 560,246	\$ -	\$ 17,612	\$ 542,634
Compensated Absences	48,976	-	6,188	42,788
Mortgage Payable	<u>237,200</u>	<u>-</u>	<u>60,925</u>	<u>176,275</u>
Total	<u>\$ 846,422</u>	<u>\$ -</u>	<u>\$ 84,725</u>	<u>\$ 761,697</u>

Mortgage Payable

The District has a mortgage on the building it currently occupies. The interest rate on the loan is variable. As of December 31, 2017 the interest rate was 4.15%.

	<u>Principal</u>	
Current Portion of Long-Term Debt	\$ 17,893	
Long-Term Debt, Net of Current	<u>176,275</u>	
Total Long-Term Debt	<u>\$ 194,168</u>	
Balance December 31, 2016	\$ 251,796	
Principal Payments	<u>57,628</u>	
Balance December 31, 2017	<u>\$ 194,168</u>	
Future payments on Mortgage Payable are as follows:	<u>Principal</u>	<u>Interest</u>
2018	\$ 17,893	\$ 7,715
2019	18,944	6,946
2020	19,746	6,145
2021	20,581	5,310
2022 - 2026	<u>117,004</u>	<u>12,730</u>
Total Long-Term Debt	<u>\$ 194,168</u>	<u>\$ 38,846</u>

The current mortgage, negotiated in September 2015 held by TruStone Credit Union has an annual interest rate of 4.15 percent for 5 years, at which time it may increase to 4.25 percent for the remaining 5 years of the mortgage. The District's Board of Supervisors has elected to accelerate pay-down of the mortgage. As a result, a revised amortization schedule must be prepared each year. The December 31, 2017 principal balance was \$194,168 (\$17,893 due in 2018 and \$176,275 due after 2018). Interest payable in 2018 under the current mortgage is \$7,715.

Deposits

Minnesota Statutes 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Statute 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. When not covered by insurance or surety bonds, the market value of collateral pledged shall be at least ten

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

percent more than the amount on deposit (plus accrued interest) at the close of the financial institution's banking day.

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

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. The District has no additional deposit policies addressing custodial credit risk. As of December 31, 2017, the District's deposits were not exposed to custodial credit risk.

Note 3 - Defined Benefit Pension Plans

Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plan 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.

All full-time and certain part-time employees of the District are covered by the General Employees Plan. General Employees Plan 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.

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 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 1 percent 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.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 of service. Two methods are used to compute benefits for PERA's Coordinated 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 Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 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 Statute Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2017. The District was required to contribute 7.50 percent for Coordinated Plan members in calendar year 2017. The District's contributions to the General Employees Fund for the year ended December 31, 2017, were \$41,285. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2017, the District reported a liability of \$542,634 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 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 liability associated with the District totaled \$6,818. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion share was .0085 percent, which was an increase of .0016 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the District recognized pension expense of \$98,386 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$197 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.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

retirees are assumed to be 1.0 percent per year for General Employees Plan through 2044 and then 2.5 percent thereafter.

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 2017:

-) The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
-) The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

The 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 Stocks	39	5.10
International Stocks	19	5.30
Bonds	20	0.75
Alternative Assets	20	5.90
Cash	2	0.00
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. 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 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.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the GERP net pension liability:	\$ 841,666	\$ 542,634	\$ 297,822

Pension Plan Fiduciary Net Position

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

Note 4 - Operating Leases

The District purchased office space in 2010 and secured a mortgage for 90 percent of the principal, providing a 10 percent down payment. The property has five rentable suites in addition to the occupied space. The District has no operating lease agreements in 2017, but has lease agreements with tenants totaling \$47,736 in 2017.

Note 5 - Assigned Fund Balance

Capital Equipment Fund	\$ 7,000
Computer Fund	2,099
Compensated Absences	42,788
Easement Endowments	34,365
McKay Maintenance Fund	89,814
Total Assigned	\$ 176,066

Note 6 - Commitments and Contingencies

The District is not aware of any existing or pending lawsuits, claims or other actions in which the District is a defendant.

**ANOKA CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 7 - Reconciliation of Fund Balance to Net Position

Governmental Fund Balance, January 1	\$ 405,136
Plus: Excess of Revenues Over Expenditures	<u>(6,652)</u>
Governmental Fund Balance, December 31	<u>\$ 398,484</u>
Adjustments from Fund Balance to Net Position:	
Plus: Capital Assets	\$ 622,923
Plus: Deferred Outflows of Resources	241,067
Less: Current Portion of Mortgage Payable	(17,893)
Less: Long-Term Liabilities	(761,697)
Less: Deferred Inflows of Resources	<u>(89,478)</u>
Net Position	<u>\$ 393,406</u>

Note 8 - Reconciliation of Change in Fund Balance to Change in Net Position

Change in Fund Balance	\$ (6,652)
Capital Outlay	37,793
Pension Expense, net	(98,386)
Debt Service, Principal	57,628
The cost of capital assets are allocated over the capital assets' useful lives at the government-wide level.	(20,317)
In the Statement of Activities certain operating expenses including Compensated Absences are measured by the amounts earned.	<u>6,188</u>
Change in Net Position	<u>\$ (23,746)</u>

**ANOKA CONSERVATION DISTRICT
HAM LAKE, MINNESOTA
BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Neg)
Revenues				
Intergovernmental				
County	\$ 188,417	\$ 169,575	\$ 174,263	\$ 4,688
Regional	177,835	64,251	49,285	(14,966)
Local	149,881	286,748	240,129	(46,619)
State Grant	1,603,404	1,022,742	1,025,143	2,401
Total Intergovernmental	<u>\$ 2,119,537</u>	<u>\$ 1,543,316</u>	<u>\$ 1,488,820</u>	<u>\$ (54,496)</u>
Charges for Services	<u>\$ 51,745</u>	<u>\$ 27,670</u>	<u>\$ 34,824</u>	<u>\$ 7,154</u>
Miscellaneous				
Interest Earnings	\$ 1,100	\$ 6,500	\$ 5,842	\$ (658)
Product Sales	314,490	328,078	333,128	5,050
Rental Income	48,504	46,746	47,736	990
Total Miscellaneous	<u>\$ 364,094</u>	<u>\$ 381,324</u>	<u>\$ 386,706</u>	<u>\$ 5,382</u>
Total Revenues	<u>\$ 2,535,376</u>	<u>\$ 1,952,310</u>	<u>\$ 1,910,350</u>	<u>\$ (41,960)</u>
Expenditures				
District Operations				
Personnel Services	\$ 735,079	\$ 729,057	\$ 752,318	\$ (23,261)
Other Services and Charges	50,905	49,975	49,555	420
Supplies	1,500	3,100	1,185	1,915
Capital Outlay	36,000	36,972	37,793	(821)
Total District Operations	<u>\$ 823,484</u>	<u>\$ 819,104</u>	<u>\$ 840,851</u>	<u>\$ (21,747)</u>
District Products				
Tree Sales	\$ 11,000	\$ 11,932	\$ 11,914	\$ 18
Rain Guardian	178,192	185,952	193,249	(7,297)
Total District Products	<u>\$ 189,192</u>	<u>\$ 197,884</u>	<u>\$ 205,163</u>	<u>\$ (7,279)</u>
Project Expenditures				
District	\$ 198,257	\$ 112,055	\$ 77,642	\$ 34,413
State	1,266,264	721,510	704,414	17,096
Total Project Expenditures	<u>\$ 1,464,521</u>	<u>\$ 833,565</u>	<u>\$ 782,056</u>	<u>\$ 51,509</u>
Land Operations				
Debt Service, Principal	\$ 16,653	\$ 57,395	\$ 57,628	\$ (233)
Debt Service, Interest	10,418	11,170	10,065	1,105
Property Taxes	1,875	2,062	2,062	-
Property Expenses	21,380	18,755	19,177	(422)
Total Land Operations	<u>\$ 50,326</u>	<u>\$ 89,382</u>	<u>\$ 88,932</u>	<u>\$ 450</u>
Total Expenditures	<u>\$ 2,527,523</u>	<u>\$ 1,939,935</u>	<u>\$ 1,917,002</u>	<u>\$ 22,933</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 7,853</u>	<u>\$ 12,375</u>	<u>\$ (6,652)</u>	<u>\$ (19,027)</u>
Fund Balance - January 1	<u>\$ 405,136</u>	<u>\$ 405,136</u>	<u>\$ 405,136</u>	<u>\$ -</u>
Fund Balance - December 31	<u>\$ 412,989</u>	<u>\$ 417,511</u>	<u>\$ 398,484</u>	<u>\$ (19,027)</u>

Notes are an integral part of the basic financial statements.

**ANOKA CONSERVATION DISTRICT
HAM LAKE, MINNESOTA**

**SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2017**

Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 31,999	\$ 31,999	\$ -	\$ 426,653	7.50%
2016	\$ 36,069	\$ 36,069	\$ -	\$ 480,917	7.50%
2017	\$ 41,285	\$ 41,285	\$ -	\$ 550,461	7.50%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each year-end were determined December 31.

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2017**

Fiscal Year Ending	Employer's Proportion of Net Pension Liability (Asset)	Employer's Share of the Net Proportionate Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0069%	\$ 357,594	\$ 405,820	88.12%	78.19%
2016	0.0069%	\$ 560,246	\$ 448,281	124.98%	68.90%
2017	0.0085%	\$ 542,634	\$ 547,193	99.17%	75.90%

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

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Supervisors
Anoka Conservation District
Ham Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities and the general fund of Anoka Conservation District of Ham Lake, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the Anoka Conservation District's basic financial statements, and have issued our report thereon dated August 20, 2018.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

August 20, 2018

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

To the Board of Supervisors
Anoka Conservation District
Ham Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Anoka Conservation District, Ham Lake, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Anoka Conservation District's basic financial statements, and have issued our report thereon dated August 20, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material *weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control as described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

Anoka Conservation District's Response to Findings

Anoka Conservation District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Anoka Conservation District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Company Ltd

PETERSON COMPANY LTD
Certified Public Accountants
Waconia, Minnesota

August 20, 2018

**ANOKA CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017**

2017-001 Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition: Substantially all accounting procedures are performed by one person.

Cause: This condition is common to organizations of this size due to the limited number of staff.

Effect: The lack of an ideal segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Recommendation: Any modification of internal controls in this area must be viewed from a cost/benefit perspective.

Management Response: The District has adequate policies and procedures in place to compensate for the lack of segregation of duties, including having all disbursements approved by the Board of Supervisors.