

**AITKIN COUNTY SOIL AND WATER
CONSERVATION DISTRICT
AITKIN, MINNESOTA**

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITOR'S REPORT

Year Ended December 31, 2020

HUGH HEINECKE, CPA
Certified Public Accountants

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

TABLE OF CONTENTS

	<u>Page (s)</u>
INTRODUCTORY SECTION	
Organization	1
FINANCIAL SECTION	
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 6
Basic Financial Statements	
Statement of Net Position and Governmental Fund Balance Sheet	7
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance	8
Budgetary Comparison Statement, Budget and Actual, General Fund	9
Notes to Financial Statements	10 - 20
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Aitkin County SWCD Contributions General Employees Retirement Fund	21
Schedule of Aitkin County SWCD Proportionate Share of Net Pension Liability General Employees Retirement Fund	22
Independent Auditor's Report on Minnesota Legal Compliance	23

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

ORGANIZATION
As of December 31, 2020

Elective Offices:

Board of Supervisors

Thomas Fasteland
Robert Janzen
Robert Roseberg
Franklin Turnock
Roger Vogt

Appointed Offices:

District Manager

Steve Hughes

Hugh Heinecke, CPA
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

**To the Board of Supervisors
Aitkin County Soil and Water
Conservation District
Aitkin, Minnesota**

We have audited the accompanying financial statements of the governmental activities and the general fund of Aitkin County Soil and Water Conservation District, Aitkin, Minnesota, as of and for the year ended December 31, 2020, 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 Aitkin County Soil and Water Conservation District, Aitkin, Minnesota, as of December 31, 2020, 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 States of America require that the management's discussion and analysis on pages 4 through 6 and the required supplementary schedules for the defined benefit pension plan on pages 21 and 22 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 Heinicke, CPA

November 30, 2021

Aitkin County Soil & Water Conservation District
Aitkin, Minnesota

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Aitkin County Soil and Water Conservation District’s discussion and analysis provides an overview of the District’s financial activities for the fiscal year ended December 31, 2020. 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, financial statements tell how 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 government units, the District combines the government-wide and fund financial statements into a single presentation.

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the 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 outflow of resources and liabilities plus deferred inflow 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 government 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.

Aitkin County Soil & Water Conservation District
Aitkin, Minnesota

Reporting the District's General Fund

Our analysis of the District's general fund is part of this report. 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 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 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	
	2020	2019
Current and other assets	670,414	406,438
Capital assets	<u>67,532</u>	<u>21,332</u>
Total assets	<u>737,946</u>	<u>427,770</u>
Deferred outflows	<u>47,287</u>	<u>62,358</u>
Combined Assets and Deferred Outflows	<u>785,233</u>	<u>490,128</u>
Current liabilities	361,110	287,414
Long-term liabilities	<u>267,603</u>	<u>232,208</u>
Total liabilities	<u>628,713</u>	<u>519,622</u>
Deferred inflows	<u>60,120</u>	<u>100,379</u>
Combined Liabilities and Deferred Inflows	<u>688,833</u>	<u>620,001</u>
Net position		
Investment in capital assets	67,532	21,332
Unassigned	<u>28,868</u>	<u>-151,205</u>
Total net position	<u>96,400</u>	<u>-129,873</u>

Net position of the District governmental activities increased by \$226,273. 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 \$151,205 deficit at December 31, 2019 to a surplus of \$28,868 at December 31, 2020.

Aitkin County Soil & Water Conservation District
Aitkin, Minnesota

Changes in Net Position

	Governmental Activities	
	<u>2020</u>	<u>2019</u>
Revenues		
Program revenues:		
Charges for services	12,837	17,911
Federal grants and entitlements	-	-
State grants and entitlements	546,264	367,113
County grants and entitlements	399,468	415,332
Local grants and entitlements	-	-
Other program revenues	4,152	4,519
General revenues:		
Other general revenues	<u>165</u>	<u>294</u>
Total revenues	<u>962,886</u>	<u>805,169</u>
Program expenses		
Conservation	<u>736,613</u>	<u>893,454</u>
Total expenses	<u>736,613</u>	<u>893,454</u>
Increase/(decrease) in net position	<u><u>226,273</u></u>	<u><u>-88,285</u></u>

The District's total revenues increased by \$157,717. The total cost of all programs and services decreased by \$156,841.

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 \$309,304, which is more than last year's surplus of \$119,024.

General Fund Budgetary Highlights

Over the course of the year, the Board of Supervisors did not revise the District's budget.

The actual charges to appropriations (expenditures) were \$9,411 more than the budgeted amounts. The most significant negative variance of \$64,773 occurred in Capital Outlay. The most significant positive variance of \$29,448 occurred in Project Expenditures.

Capital Assets

At the end of 2020, the District had \$67,532 invested in capital assets. This amount represents a net increase (including additions and deductions) of \$46,200 from last year.

Long-Term Liabilities

At the end of 2020, the District had \$251,808 in Net Pension Liability and \$15,795 in Compensated Absences, due to a change in policy regarding unused sick leave. This compares to \$232,208 in 2019 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 District Manager at: Aitkin County Soil and Water Conservation District, 307 2nd St NW Room 216, Aitkin, Minnesota 56431.

AITKIN COUNTY SOIL AND WATER
CONSERVATION DISTRICT
Aitkin, Minnesota

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

As of December 31, 2020

	General Fund	Adjustments See Notes	Statement of Net Position
ASSETS			
Cash and cash equivalents	\$ 438,994	\$ -	\$ 438,994
Due from other governmental units	231,420	-	231,420
Capital Assets:			
Equipment (net of accumulated depreciation)	_____	67,532	67,532
Total Assets	670,414	67,532	737,946
Deferred Outflows of Resources			
Defined benefit pension plan	_____	47,287	47,287
Combined Assets and Deferred Outflows of Resources			
	<u>\$ 670,414</u>	<u>\$ 114,819</u>	<u>\$ 785,233</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 345	\$ -	\$ 345
Accrued vacation payable	13,547	-	13,547
Accrued payroll taxes payable	3,919	-	3,919
Sales tax payable	591	-	591
Unearned revenue	342,188	-	342,188
Unearned revenue-deposits on tree sales	520	-	520
Long-Term Liabilities:			
Net pension liability	_____	251,808	251,808
Compensated absences	_____	15,795	15,795
Total Liabilities	361,110	267,603	628,713
Deferred Inflows of Resources			
Defined benefit pension plan	_____	60,120	60,120
Combined Liabilities and Deferred Inflows of Resources			
	<u>\$ 361,110</u>	<u>\$ 327,723</u>	<u>\$ 688,833</u>
FUND BALANCE/NET POSITION			
Fund Balance:			
Unassigned	\$ 309,304	\$ (309,304)	\$ _____
Total Fund Balance	<u>\$ 309,304</u>	<u>\$ (309,304)</u>	<u>\$ _____</u>
Net Position:			
Investment in capital assets	_____	\$ 67,532	\$ 67,532
Unrestricted	_____	28,868	28,868
Total Net Position	_____	<u>\$ (212,904)</u>	<u>\$ 96,400</u>

See notes to basic financial statements.

AITKIN COUNTY SOIL AND WATER
CONSERVATION DISTRICT
Aitkin, Minnesota

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended December 31, 2020

	<u>General Fund</u>	<u>Adjustments See Notes</u>	<u>Statement of Net Position</u>
REVENUES			
Intergovernmental	\$ 945,061	\$ 671	\$ 945,732
Charges for services	12,837	-	12,837
Investment earnings	165	-	165
Miscellaneous	<u>4,152</u>	<u>-</u>	<u>4,152</u>
Total Revenues	<u>962,215</u>	<u>671</u>	<u>962,886</u>
EXPENDITURES			
Conservation			
Current	705,162	31,451	736,613
Capital outlay	<u>66,773</u>	<u>(66,773)</u>	<u>-</u>
Total Expenditures	<u>771,935</u>	<u>(35,322)</u>	<u>736,613</u>
Excess of Revenues Over/ (Under) Expenditures	190,280	35,993	226,273
Fund Balance/Net Position-Jan 1	<u>119,024</u>	<u>(248,897)</u>	<u>(129,873)</u>
Fund Balance/Net Position-Dec 31	<u>\$ 309,304</u>	<u>\$ (212,904)</u>	<u>\$ 96,400</u>

See notes to basic financial statements.

AITKIN COUNTY SOIL AND WATER
CONSERVATION DISTRICT
Aitkin, Minnesota

**BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND**

For the year ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>Budget Variance</u>
REVENUES				
Intergovernmental				
State sources	\$ 337,710	\$ 337,710	\$ 545,593	\$ 207,883
County sources	411,664	411,664	399,468	(12,196)
Local sources	-	-	-	-
Charges for services	6,500	6,500	12,837	6,337
Investment earnings	150	150	165	15
Miscellaneous	6,500	6,500	4,152	(2,348)
Total Revenues	<u>762,524</u>	<u>762,524</u>	<u>962,215</u>	<u>199,691</u>
EXPENDITURES				
District Operations				
Personnel services	378,683	378,683	362,271	16,412
Other services and charges	35,900	35,900	28,014	7,886
Supplies	4,600	4,600	2,984	1,616
Capital outlay	2,000	2,000	66,773	(64,773)
Total District Operations	<u>421,183</u>	<u>421,183</u>	<u>460,042</u>	<u>(38,859)</u>
Project Expenditures				
District	262,131	262,131	178,993	83,138
State	79,210	79,210	132,900	(53,690)
Total Project Expenditures	<u>341,341</u>	<u>341,341</u>	<u>311,893</u>	<u>29,448</u>
Total Expenditures	<u>762,524</u>	<u>762,524</u>	<u>771,935</u>	<u>(9,411)</u>
Excess of Revenues Over/ (Under) Expenditures	-	-	190,280	190,280
Fund Balance - January 1	<u>119,024</u>	<u>119,024</u>	<u>119,024</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 119,024</u>	<u>\$ 119,024</u>	<u>\$ 309,304</u>	<u>\$ 190,280</u>

See notes to basic financial statements.

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Aitkin County Soil and Water Conservation District conform to accounting principles generally accepted in the United State of America (GAAP), as applied to governmental units. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statements, which changes the way both the statement of net position and the statement of activities are reported.

A. Reporting Entity

The District is organized under provisions of Minnesota Statutes Chapter 103C and 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 Aitkin County Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture Natural Resources Conservation Service and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution, and improper land use.

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

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

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

B. Basis of Presentation – Fund Accounting

The accounts of Aitkin County Soil and Water Conservation District 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 revenue and expenditures incurred in operating the District.

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 District. The Statement of Activities demonstrates the degree of 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

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT

Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide Financial Statements (Continued)

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 related cash flows. Grants and similar items are recognized 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 District's financial statements (general fund) are presented on 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 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 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 expenditure is incurred. The District also receives an annual appropriation from the County, which 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 and revenues from the sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received in cash because they usually are not measurable until then.

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

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for 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 District adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflow of Resources and Fund Position

Assets – Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

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

Liabilities – Long-term liabilities, such as compensated absences, are accounted for as an adjustment of net position.

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

Classification of Net Position – Net position in government-wide financial statements is 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 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 so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, amounts related to their pension obligations. These deferred amounts represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflow of Resources and Fund Position (Continued)

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 except the PERA’s fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefits payments and funds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

Classification 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 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 (b) externally imposed constraints.

Committed balances can only be used for specific purposes imposed by formal action (resolution) of the District. Those committed amounts cannot be used for any other purpose unless the District removes or changes the specific use by taking the same type of action (resolution) it employed to previously commit those amounts.

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 and includes all spendable amounts not contained in the other fund balance classifications.

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

G. Vacation and Sick Leave

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on length of service. Vacation leave accrual varies from 4 to 21 hours per month. Sick leave accrues at 12 days per year. The limit on vacation accumulation is unlimited and for sick leave is 192 hours.

Upon separation from the District employees are paid accrued vacation leave and up to 192 hours of accrued sick leave. On termination of employment, with cause, employees are paid accrued vacation and no hours of accrued sick leave.

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.

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Explanation of Adjustments Column in Statements

Long-Term Liabilities – In the Statement of Net Position and Governmental Fund Balance Sheet, an adjustment is made to reflect the Net Pension Liability and compensated absences the District has as of the report date.

Depreciation and Pension Expense - 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/minus the change in Net Pension Liability between the reporting year and previous year.

I. Subsequent Events

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 30, 2021, the date the financial statements were available to be issued.

2. DEPOSITS AND CUSTODIAL CREDIT RISK DEPOSITS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. Minnesota Statute 118A.03 requires that all District deposits be covered by insurance, surety bond or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit, plus accrued interest, at the close of the financial institution’s banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of US 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. As of December 31, 2020, the District’s deposits were not exposed to custodial credit risk.

3. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2020 is as follows:

	<u>Balance</u> <u>12-31-19</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-20</u>
Vehicles	\$ 39,427	\$ -	\$ -	\$ 39,427
Equipment	28,015	66,773	9,342	85,446
	67,442	66,773	9,342	124,873
Accumulated depreciation	(46,110)	(20,573)	(9,342)	(57,341)
Net Capital Assets	\$ 21,332	\$ 46,200	\$ -	\$ 67,532

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 estimated useful lives of assets. Depreciation is computed on the straight-line method. The useful lives of property, plant and equipment for the purpose of computing depreciation is 3 to 7 years for vehicles and equipment. Current year depreciation is \$20,573.

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

3. **CAPITAL ASSETS** (Continued)

The District uses a threshold of \$500 for capitalizing assets purchased. Those physical assets under \$500 are expensed directly and not capitalized.

4. **PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

Defined Benefit Pension Plans - Statewide

Plan Description – The District 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 plan is 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 Retirement 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. 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 of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the annuity accrual rate for Coordinated Plan members is 1.2 percent for each of the first 10 years and 1.7 percent for each additional year. Under Method 2, the annuity accrual rate for Coordinated Plan members is 1.7 percent for all years 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.

Benefit increases are provided to benefit recipients each January³ The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced pro rata increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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 2020 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the years ending December 31, 2020 were \$23,411. The District's contributions were equal to the required contributions as set by state statute.

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

4. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs – At December 31, 2020, the District reported a liability of \$251,808 for its proportionate share of the General Employees Fund’s net pension liability. The District’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million. 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 \$671. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by 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 dates from July 1, 2019 through June 30, 2020 relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2020 the District’s proportion share was .0042 percent at the end of the period and .0042 percent for the beginning of the period.

District’s proportionate share of net pension liability	\$251,808
State of Minnesota’s proportionate share of the net pension liability associated with the District	<u>7,712</u>
Total	<u>\$259,520</u>

For the year ended December 31, 2020, the District recognized pension expense of \$18,009 for its proportionate share of the General Employees Plan’s pension expense. In addition, the District recognized \$671 as and grant revenue for its proportionate share of the State of Minnesota’s annual contribution of \$16 million.

At December 31, 2020, the District 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	\$ 2,315	\$ 953
Changes in actuarial assumptions	-	9,926
Difference between projected and actual investment earnings	25,458	24,277
Changes in proportion	7,980	24,964
Contributions to PERA subsequent to the measurement date	<u>11,534</u>	<u>-</u>
Total	<u>\$ 47,287</u>	<u>\$ 60,120</u>

A total of \$11,534 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

4. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

Year ended December 31:	Pension Expense Amount
2021	\$ (21,479)
2022	(13,760)
2023	4,789
2024	6,083
2025	-
Thereafter	-

Actuarial Assumptions – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on Pub-2010 General Employee Mortality table for the General Employees Plan males or females, as appropriate, with slight adjustments to fit PERA’s experience. Cost of living benefit increases for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2020 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 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table. The base mortality table for disabled annuitants was changed from RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disable annuitant table, with adjustments.

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

4. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions (Continued)

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%/ The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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 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	35.5%	5.10%
International stocks	17.5%	5.30%
Bonds (Fixed income)	20.0%	0.75%
Alternative assets (Private Markets)	25.0%	5.90%
Cash equivalents	2.0%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2020 was 7.50%. 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.

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 one percentage point lower or one 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 GERF net pension liability:	\$413,171	\$257,805	\$129,640

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.mnpera.org.

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

5. COMPENSATED ABSENCES PAYABLE

Compensated absences payable consists of accrued sick leave payable to employees as of December 31, 2020. The District changed its policy during 2020 relative to sick leave at separation from service to include all voluntary separations, not just retirement. Changes for the year ended December 31, 2020 is as follows:

Balance - January 1, 2020	\$	-
Additions/deletions		<u>15,795</u>
Balance - December 31, 2020		\$ <u>15,795</u>

6. REQUIRED DISCLOSURES

County Revenue - Following is a breakdown of revenues received from Aitkin County during the year ended December 31, 2020:

Annual Allocation	\$	81,034
Aquatic Invasive Species		271,243
Con Con Funding		45,220
Other County Aid		<u>1,971</u>
Total		\$ <u>399,468</u>

Unearned Revenue - Unearned revenue represents advances from the Board of Water and Soil Resources (BWSR) for the cost-share program and other grants and programs. Revenues will be recognized when the related program expenditures are recorded. Unearned revenue for the year ended December 31, 2020, consists of the following:

FY20 Cost-share - unencumbered	\$	4,200
FY20 District Capacity		139,872
FY21 District Capacity		138,472
SWCD North Region Forester - Future Funding		-
County - LCWP		7,700
State - LCWP		13,888
State WCA		8,310
Cisco Lakes CWP		19,746
Buffer Law		<u>10,000</u>
Total		\$ <u>342,188</u>

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental coverage; and natural disasters. Property and casualty liabilities and workers compensation are insured through the Minnesota Counties Intergovernmental Trust. The District is covered for errors and omissions through the Minnesota Counties Intergovernmental Trust. The District 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 District 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 for any of the past three fiscal years.

AITKIN COUNTY SOIL AND WATER CONSERVATION DISTRICT
Aitkin, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2020

8. CONTINGENCIES

District management is aware of no existing, pending, or threatened legal action against the District at December 31, 2020.

The District 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, District management is of the opinion that any such reimbursements would be minor.

9. RECONCILIATION OF FUND BALANCE TO NET POSITION

Governmental Fund Balance – January 1	\$ 119,024
Less: Excess of Expenditures over Revenue	<u>190,280</u>
Governmental Fund Balance – December 31	\$ 309,304
Adjustment from Fund Balance to Net Position:	
Plus: Capital Assets	\$ 67,532
Plus: Deferred Outflows of Resources	47,287
Less: Long-Term Liabilities	-267,603
Less: Deferred Inflows of Resources	<u>-60,120</u>
Net Position	<u>\$ 96,400</u>

10. RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION

Change in Fund Balance	\$190,280
Grant revenue for proportionate share of State of Minnesota’s special funding situation	671
Capital outlay	66,773
Pension Expense, net	4,917
The cost of capital assets are allocated over the capital assets’ useful lives at the government-wide level	-20,573
In the statement of activities certain operating expenses (including depreciation and compensated absences) are measured by the amounts earned	<u>-15,795</u>
Change in Net Position	<u>\$226,273</u>

AITKIN COUNTY SOIL AND WATER
 CONSERVATION DISTRICT
 Aitkin, Minnesota

SCHEDULE OF AITKIN COUNTY SWCD CONTRIBUTIONS
 GENERAL EMPLOYEES RETIREMENT FUND
 LAST TEN YEARS

For the Year Ended December 31, 2020

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)
December 31, 2020	\$ 22,926	\$ 22,926	\$ -0-	\$ 305,680	7.50%
December 31, 2019	\$ 21,598	\$ 21,598	\$ -0-	\$ 287,976	7.50%
December 31, 2018	\$ 24,734	\$ 24,734	\$ -0-	\$ 329,791	7.50%
December 31, 2017	\$ 22,992	\$ 22,992	\$ -0-	\$ 306,563	7.50%
December 31, 2016	\$ 21,173	\$ 21,173	\$ -0-	\$ 282,308	7.50%
December 31, 2015	\$ 13,370	\$ 13,370	\$ -0-	\$ 178,275	7.50%

* Option to provide RSI for ten years at transition or to provide RSI prospectively.

AITKIN COUNTY SOIL AND WATER
CONSERVATION DISTRICT
Aitkin, Minnesota

**SCHEDULE OF AITKIN COUNTY SWCD PROPORTIONATE
SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
LAST TEN YEARS**

For the Year Ended December 31, 2020

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)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with Aitkin County SWCD (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with Aitkin County SWCD (a + b)
June 30, 2020	0.0042%	\$ 251,808	\$ 7,712	\$ 259,520
June 30, 2019	0.0042%	\$ 232,208	\$ 7,333	\$ 239,541
June 30, 2018	0.0051%	\$ 282,926	\$ 9,162	\$ 292,088
June 30, 2017	0.0046%	\$ 293,661	\$ 3,681	\$ 297,342
June 30, 2016	0.0038%	\$ 308,541	\$ 4,082	\$ 312,623
June 30, 2015	0.0026%	\$ 134,745	N/A	\$ 134,745

Fiscal Year Ending	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage the Total Pension Liability
June 30, 2020	\$ 295,394	87.86%	79.1%
June 30, 2019	\$ 300,343	79.76%	80.2%
June 30, 2018	\$ 326,485	89.46%	79.5%
June 30, 2017	\$ 295,313	100.69%	75.9%
June 30, 2016	\$ 236,932	131.95%	68.9%
June 30, 2015	\$ 161,167	83.61%	78.2%

* Schedule is to be provided prospectively beginning with the employer's fiscal year ended June 30, 2015, or after.

Hugh Heinecke, CPA
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

**To the Board of Supervisors
Aitkin County Soil and Water
Conservation District
Aitkin, Minnesota**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Aitkin County Soil and Water Conservation District, Aitkin, Minnesota, as of and for the year ended December 31, 2020, and the related notes to financial statements, and have issued our report thereon dated November 30, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, insofar as they relate to accounting matters. 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 District's noncompliance with the above referenced provisions.

This report is intended for the information and use of those charged with governance and the management of Aitkin County Soil and Water Conservation District 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

November 30, 2021