

**LANCASTER COUNTY  
CONSERVATION DISTRICT  
LANCASTER, PENNSYLVANIA**

**FINANCIAL STATEMENTS – CASH BASIS**

**YEAR ENDED DECEMBER 31, 2016**

LANCASTER COUNTY CONSERVATION DISTRICT  
YEAR ENDED DECEMBER 31, 2016

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# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
LANCASTER COUNTY CONSERVATION DISTRICT  
Lancaster, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, and each major fund of Lancaster County Conservation District as of and for the year ended December 31, 2016, and the related notes to the cash basis financial statements, which collectively comprise the Lancaster County Conservation District's basic cash basis 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 the cash basis financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these cash basis 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.

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# *Zelenkofske Axelrod LLC*

Board of Directors  
LANCASTER COUNTY CONSERVATION DISTRICT  
Lancaster, Pennsylvania

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and the major funds of the Lancaster County Conservation District, as of December 31, 2016, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## ***Adoption of Governmental Accounting Standards Board Principles***

As discussed in Note 1 to the financial statements, in 2016 the Lancaster County Conservation District adopted the provisions of Governmental Standards Board's Statement (GASB) No. 72, "*Fair Value Measurement and Application*", GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*", and GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*."

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 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 historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

# *Zelenkofske Axelrod LLC*

Board of Directors  
LANCASTER COUNTY CONSERVATION DISTRICT  
Lancaster, Pennsylvania

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2017 on our consideration of the Lancaster County 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 Lancaster County Conservation District's internal control over financial reporting and compliance.

*Zelenkofske Axelrod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
August 7, 2017

LANCASTER COUNTY CONSERVATION DISTRICT  
STATEMENT OF NET POSITION - CASH BASIS  
DECEMBER 31, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 1,016,899	\$ 4,050	\$ 1,020,949
Investments	55,438	-	55,438
Restricted Cash and Cash Equivalents	<u>1,053,676</u>	<u>25,944</u>	<u>1,079,620</u>
 Total Assets	 <u><u>\$ 2,126,013</u></u>	 <u><u>\$ 29,994</u></u>	 <u><u>\$ 2,156,007</u></u>
 <b>Net Position:</b>			
Restricted	\$ 1,053,676	\$ 25,944	\$ 1,079,620
Unrestricted	<u>1,072,337</u>	<u>4,050</u>	<u>1,076,387</u>
 Total Net Position	 <u><u>\$ 2,126,013</u></u>	 <u><u>\$ 29,994</u></u>	 <u><u>\$ 2,156,007</u></u>

The accompanying notes are an integral part of the financial statements.

LANCASTER COUNTY CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES - CASH BASIS  
YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Cash Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:						
Conservation Services	\$ 2,685,251	\$ 593,389	\$ 2,110,124	\$ 18,262	\$ -	\$ 18,262
Business-Type Activities:						
Youth Conservation School	6,385	7,117	743	-	1,475	1,475
Total Governmental Activities	<u>\$ 2,691,636</u>	<u>\$ 600,506</u>	<u>\$ 2,110,867</u>	<u>18,262</u>	<u>1,475</u>	<u>19,737</u>
		General Receipts:				
		County Funding		231,941	-	231,941
		Investment Earnings		8,544	13	8,557
		Miscellaneous		3,727	-	3,727
		Total General Receipts		<u>244,212</u>	<u>13</u>	<u>244,225</u>
		Increase (Decrease) in Net Position		262,474	1,488	263,962
		Net Position - Beginning of year		<u>1,863,539</u>	<u>28,506</u>	<u>1,892,045</u>
		Net Position - End of year		<u>\$ 2,126,013</u>	<u>\$ 29,994</u>	<u>\$ 2,156,007</u>

The accompanying notes are an integral part of the financial statements.

LANCASTER COUNTY CONSERVATION DISTRICT  
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES - GOVERNMENTAL FUND  
DECEMBER 31, 2016

	General Fund	Total Governmental Funds
Cash Basis Assets:		
Cash and Cash Equivalents	\$ 1,016,899	\$ 1,016,899
Investments	55,438	55,438
Restricted Cash and Cash Equivalents	1,053,676	1,053,676
Total Cash Basis Assets	<u>\$ 2,126,013</u>	<u>\$ 2,126,013</u>
Cash Basis Fund Balances:		
Restricted:		
NPDES Investment Account	\$ 306,881	\$ 306,881
Bay Engineer Separation Expenses	8,240	8,240
Bay Technician Separation Expenses	9,975	9,975
SWAT Separation Expenses	4,372	4,372
Ombudsman Separation Expenses	4,547	4,547
Dirt & Gravel Roads Expenses	35,356	35,356
Exelon	482,355	482,355
Low Volume Roads Expenses	201,950	201,950
Committed:		
Ann Brown Scholarship	60,773	60,773
Assigned:		
Capital Expenses	25,409	25,409
Nutrient Management Program	159,579	159,579
Nutrient Management Program Vehicle	2,960	2,960
Administrative Vehicle	1,697	1,697
Communication	16,000	16,000
Software Maintenance	30,000	30,000
Computer Hardware	26,700	26,700
Watershed Program	10,000	10,000
CAD Software	7,500	7,500
E & S Operations Expense	323,359	323,359
Separation Expenses	37,393	37,393
Unassigned:	<u>370,967</u>	<u>370,967</u>
Total Cash Basis Fund Balance	<u>\$ 2,126,013</u>	<u>\$ 2,126,013</u>

The accompanying notes are an integral part of the financial statements.



LANCASTER COUNTY CONSERVATION DISTRICT  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BASIS FUND BALANCE - GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Total Governmental Funds
Receipts:		
County Support	\$ 231,941	\$ 231,941
Other Local Support	10,122	10,122
State and Federal Subsidies	2,100,002	2,100,002
Activity Income	19,174	19,174
NPDES Permit Fees	108,500	108,500
E & S Review Fees	402,680	402,680
Clean Water Fund Fees	15,400	15,400
Education and Ag Service Fees	9,966	9,966
Sales Income	37,669	37,669
Interest Income	8,544	8,544
Other Income	3,727	3,727
	<hr/>	<hr/>
Total Receipts	2,947,725	2,947,725
Disbursements:		
Conservation Services:		
Salaries and wages	1,418,987	1,418,987
Employee Benefits	438,739	438,739
Travel Expenses	55,681	55,681
Meetings and Training Costs	16,914	16,914
Supplies	18,512	18,512
Telephone	22,150	22,150
Postage	7,529	7,529
Equipment and IT Support	58,321	58,321
Office rent	74,830	74,830
Other Administrative	37,285	37,285
District Activity	49,216	49,216
Grants	483,452	483,452
Unrealized Loss on Investments	211	211
Miscellaneous	3,424	3,424
	<hr/>	<hr/>
Total Disbursements	2,685,251	2,685,251
Change in Cash Basis Fund Balance	262,474	262,474
Cash Basis Fund Balance at Beginning of Year	<hr/> 1,863,539	<hr/> 1,863,539
Cash Basis Fund Balance at End of Year	<hr/> <u>\$ 2,126,013</u>	<hr/> <u>\$ 2,126,013</u>

The accompanying notes are an integral part of the financial statements.

LANCASTER COUNTY CONSERVATION DISTRICT  
 STATEMENT OF CASH BASIS ASSETS AND NET POSITION  
 PROPRIETARY FUND  
 DECEMBER 31, 2016

		Youth Conservation <u>School</u>
Cash Basis Assets:		
Current Assets:		
Cash and Cash Equivalents	\$	4,050
Restricted Cash and Cash Equivalents		<u>25,944</u>
Total Cash Basis Assets	\$	<u><u>29,994</u></u>
Cash Basis Net Position:		
Restricted	\$	25,944
Unrestricted		<u>4,050</u>
Total Cash Basis Net Position	\$	<u><u>29,994</u></u>

The accompanying notes are an integral part of the financial statements.

LANCASTER COUNTY CONSERVATION DISTRICT  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BASIS NET POSITION - PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Youth Conservation School</u>
Operating Receipts:	
Registration Fees	\$ 500
Tuition	3,525
Grant Income	<u>3,092</u>
Total Operating Receipts	<u>7,117</u>
Operating Disbursements:	
Food Purchased	2,262
Scholarships	500
Tee Shirts	199
Postage	61
Supplies	738
Rent	200
Insurance	828
Transportation	1,329
Program Fees	211
Other	<u>57</u>
Total Operating Disbursements	<u>6,385</u>
Nonoperating Receipts	
Donations	743
Interest Income	<u>13</u>
Total Nonoperating Receipts	<u>756</u>
Net Increase/(Loss)	1,488
Cash Basis Net Position	
Beginning	<u>28,506</u>
Ending	<u><u>\$ 29,994</u></u>

The accompanying notes are an integral part of the financial statements.

LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lancaster County Conservation District (Conservation District) was officially organized October 19, 1938. The Conservation District was organized in accordance with the Pennsylvania Soil Conservation District Law (Act 557) and included the southern fifteen townships of Lancaster County. The Conservation District did not encompass the whole County until February 24, 1950, when the County Commissioners passed a resolution creating a countywide Soil Conservation District. This was in accordance with the Pennsylvania State Soil Conservation Law of 1945 (Act 217). The Conservation District is governed by a board of directors consisting of one County Commissioner and a combination of eight farmers/public directors. The primary purpose of the Conservation District is to assist landowners, operators, and organizations to develop and apply conservation plans to conserve and protect the natural resources on a voluntary basis. As discussed further in Note 1C, these financial statements are presented on a cash basis of accounting which is another comprehensive basis of accounting. This cash basis differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A summary of the Conservation District's significant accounting policies is as follows:

A) Reporting Entity

The Conservation District follows the criteria promulgated by the Governmental Accounting Standards Board ("GASB") for purposes of determining the scope of its reporting entity. In accordance with GASB Statement No. 61, the County of Lancaster ("County") has evaluated the Conservation District to determine whether the Conservation District should be included as a component unit of the County. The County considers the Conservation District a related organization as the County's Board of Commissioners is responsible for appointing the members of the board, but the County's accountability does not extend beyond making appointments. The financial statements of the reporting entity include those of only the Lancaster County Conservation District.

B) Government-Wide and Fund Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through County funds, intergovernmental receipts and interest earnings. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

B) Government-Wide and Fund Financial Statements (Continued)

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The Conservation District presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Position and the Statement of Activities, both the governmental and business-type activities are presented using the economic resources within the limitations of the cash basis of accounting, as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with its activities is reported. Proprietary fund equity is classified as Net Position.

LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, and business-type activities are presented using a cash basis of accounting. This basis recognizes assets, net assets/fund balance, receipts and disbursements when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenses are not recorded in these financial statements.

The Conservation District reports the following major governmental fund:

- The General Fund is the primary operating fund and accounts for all financial resources of the general government except those specifically that are required to be accounted for in another fund.

The Conservation District reports the following major proprietary fund:

- The Youth Conservation School Fund is used to account for the operation of the Youth Conservation School that is financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing service to the general public on a continuing basis be financed or recovered primarily through user charges.

D) Budgets and Budgetary Accounting

An operating budget is adopted each fiscal year for the general fund. Budgetary data is included in the Conservation District's management information system and is employed as a management control device during the year. The budget is prepared on the cash basis of accounting which is the same as the financial statements.

E) Assets, Liabilities, and Net Position or Fund Balances

1. Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

2. Investments

Investments are recorded at market value.

LANCASTER COUNTY CONSERVATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (CONTINUED)

E) Assets, Liabilities, and Net Position or Fund Balances (Continued)

3. Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

4. Interfund Transactions

Quasi and external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

5. Net Position/Fund Balances

The government-wide and proprietary financial statements utilize a net position presentation. Net position is categorized as restricted and unrestricted.

- *Restricted Net Position* – This category presents external restrictions 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* – This category represents net position of the Conservation District, not restricted for any project or other purpose.

Beginning with calendar year 2011, the Conservation District implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*.” In accordance with this Statement, the governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Conservation District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable Fund Balance* – Amounts that are not in a spendable form (such as Inventory) or are required to be maintained in tact.
- *Restricted Fund Balance* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

LANCASTER COUNTY CONSERVATION DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (CONTINUED)

E) Assets, Liabilities, and Net Position or Fund Balances (Continued)

- *Committed Fund Balance* – Amounts constrained to specific purposes by the Conservation District itself, using its highest level of decision-making authority (i.e. Board of Directors) through a formal action. To be reported as committed, amounts cannot be used for any other purpose unless the Conservation District Board of Directors takes the same level of action to remove or change the constraint.
- *Assigned Fund Balance* – Amounts the Conservation District intends to be used for a specific purpose, but are neither restricted nor committed. Assignments of fund balance are created by the Conservation District Administrator and Business Manager jointly.
- *Unassigned Fund Balance* – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the Conservation District's policy to use restricted resources first. When expenditures are incurred for purposes of which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Conservation District's policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

F) Adoption of Governmental Accounting Standards

The Conservation District adopted the provisions of GASB issued Statement No. 72, "*Fair Value Measurement and Application*".

The Conservation District adopted the provisions of GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*".

The Conservation District adopted the provisions of GASB issued Statement No. 77, "*Tax Abatement Disclosures*".

The Conservation District adopted the provisions of GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*".

The Conservation District adopted the provisions of GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*".

The adoption of these statements had no effect on previously reported amounts, but GASB statement numbers 72 and 79 did require additional disclosures which are included in Note 2.



LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

G) Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The Conservation District is required to adopt Statement No. 73 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The Conservation District is required to adopt Statement No. 74 for its fiscal year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The Conservation District is required to adopt Statement No. 75 for its fiscal year 2018 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*". The Conservation District is required to adopt Statement No. 80 for its fiscal year 2017 financial statements.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*". The Conservation District is required to adopt Statement No. 81 for its fiscal year 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". The Conservation District is required to adopt Statement No. 82 for its fiscal year 2018 financial statements.

In November 2016, the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations*". The Conservation District is required to adopt Statement No. 83 for its fiscal year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities*". The Conservation District is required to adopt Statement No. 84 for its fiscal year 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, "*Omnibus 2017*". The Conservation District is required to adopt Statement No. 85 for its fiscal year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues*". The Conservation District is required to adopt Statement No. 86 for its fiscal year 2018 financial statements.

LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

G) Pending Changes in Accounting Principles (Continued)

In June 2017, the GASB issued Statement No. 87, "Leases". The Conservation District is required to adopt Statement No. 87 for its fiscal year 2020 financial statements.

The Conservation District has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: DEPOSIT AND INVESTMENT RISK

Deposits and Investments

Pennsylvania statutes provide for investment of governmental funds into the following authorized investment types: Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

The Conservation District is permitted to have deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and for any amounts above the insured maximum provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the Conservation District adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either state statutes or the policy of the Conservation District.

*Custodial Credit Risk.* For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Conservation District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2016, the Conservation District's deposits and investments in CDs had a carrying amount of \$2,102,903 and a bank balance of \$2,167,095. The entire bank balance was covered by federal depository insurance, or invested in a state investment pool; and therefore none of the Conservation District's cash deposits were subject to custodial credit risk. None of the Conservation District's investments were exposed to custodial credit risk at December 31, 2016.

The Conservation District's investments at December 31, 2016 were as follows:

Governmental Funds

General Fund		
Fixed Income Municipal Bonds	\$	55,438
		<hr/>
Total Total Governmental Funds	\$	55,438
		<hr/> <hr/>

LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

Deposits and Investments (Continued)

As of December 31, 2016, the Conservation District had the following debt investments and maturities within its General Fund account:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Fixed Income:					
Municipal Bonds	\$ 55,438	\$ 5,112	\$ 10,964	\$ 25,218	\$ 14,144
Total	<u>\$ 55,438</u>	<u>\$ 5,112</u>	<u>\$ 10,964</u>	<u>\$ 25,218</u>	<u>\$ 14,144</u>

The Conservation District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Conservation District has the following recurring fair value measurements as of December 31, 2016:

- Municipal Bond securities of \$55,438 are valued using quoted market prices (Level 1 inputs)

The fixed income municipal bonds are recorded at fair market value of \$55,438; however, the Conservation District will only receive the book value of the bonds upon final maturity.

*Interest Rate Risk.* The General Fund Investment Policies do not limit investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The Conservation District does not have a formal policy that limits investments to ratings issued by nationally recognized statistical rating organizations for the Governmental Activities. As of December 31, 2016, 9%, 9%, 62%, and 20% of the General Fund investments in fixed income mutual funds were rated A, A+, AA, and AA- respectively, by S&P.

*Concentration of Credit Risk.* The Conservation District does not have a formal policy that places a limit on the amount or percent that may be invested in any one issuer for the General Fund. More than 5% of the General Fund's investments are in the Connellsville Area School District, the Lancaster County Hospital Authority, the Pennsylvania Finance Authority, the Puerto Rico Commonwealth Highway and Transit Authority, the Illinois Development Finance Authority, the City of Philadelphia, Pennsylvania, the City of Warren, Michigan, the City of Selma, Alabama, and the Delaware County Pennsylvania Authority. These investments are 8.5%, 8.9%, 8.9%, 9.2%, 9.2%, 9.2%, 9.3%, 17.0%, and 19.8%, respectively, of the General Fund's investments.

LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

Deposits and Investments (Continued)

*Participation in External Investment Pools.* Investment Pool investments are multiple investment portfolios with the Pennsylvania Invest Community Pool similar to a money market fund. The portfolio securities are valued at amortized cost, which approximates market value. The District has no regulatory oversight for the pool, which is governed by the Board of Directors. The pool is audited annually by the Pennsylvania Department of the Auditor General. The pool is rated AAAM by Standard & Poor's. The Pennsylvania Treasury Department's INVEST Program issues an annual report available at [www.painvest.gov](http://www.painvest.gov).

*Restrictions on Qualified Investment Pool Withdrawals.* The Conservation District is not limited on withdrawals from the Pennsylvania Invest account.

NOTE 3: RESTRICTED ASSETS

Assets whose use is limited to a specific purpose has been classified as restricted in the governmental fund balance sheets. Restricted cash and cash equivalents are composed of the following:

Governmental Funds:

General Fund

Dirt and Gravel Road Grant	\$ 35,356
NPDES Investment Account	306,881
Bay Engineer Separation Grant	8,240
Bay Technician Separation Grant	9,975
Ombudsman Separation Grant	4,547
SWAT Separation Grant	4,372
Low Volume Roads Grant	201,950
Exelon	<u>482,355</u>
Total Governmental Funds	<u>\$ 1,053,676</u>

Proprietary Funds:

Youth Conservation School Fund

School Operations	<u>\$ 25,944</u>
Total Proprietary Funds	<u>\$ 25,944</u>

LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 4: DEFERRED COMPENSATION PLAN

The Section 457 Deferred Compensation Plan is administered by Fulton Financial Advisors with all retirement funds totaling \$2.2 million transferred over from Standard Insurance Company in July of this year. An employee can make pre-tax elective deferrals to the plan up to the maximum allowed by law. Also, due to the implementation of the Roth option, an employee may also choose to make contributions that will be taxed upfront when the funds are contributed to the plan, and the individual will experience tax-free withdrawals once meeting the necessary requirements. The Conservation District may match employee contributions dollar for dollar up to 5% of their compensation. All employees are eligible to participate upon successful completion of a probationary period, which is normally 3 months of service, and attainment of age twenty-one. Based on an employee's years of service, an employee has vested interest in benefits from employer contributions as follows:

<u>Years of Service</u>	<u>Vested %</u>
Less than 2	0
2	20
3	40
4	60
5	80
6 or More	100

An employee is credited with one year of service for each twelve consecutive-month period which commences on an anniversary date on or after the effective date of the plan and during which the employee accrued at least 1,000 hours of service. The anniversary date is January 1<sup>st</sup> of each year.

The terms of this plan, including matching and contribution requirements, can be amended at any time the Lancaster County Conservation District desires to do so. The plan is established under Code Section 457 of the Internal Revenue Code of 1986, as amended.

During the year ended December 31, 2016, employees and the Conservation District contributed \$104,961 and \$61,369, respectively.

NOTE 5: OPERATING LEASE

The Conservation District leases office space under a three-year lease from the Farm and Home Foundation of Lancaster County, expiring July 31, 2017. Future minimum payments under this lease at December 31, 2016, are as follows:

2017	<u>44,410</u>
<b>Total</b>	<u><u>\$ 44,410</u></u>

Rental expense for the year ended December 31, 2016, was \$74,830.

LANCASTER COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

NOTE 6: CONDUIT DEBT

In August 2011, the Conservation District received a nonrecourse promissory note in the amount of \$291,100 from the Pennsylvania Infrastructure Investment Authority (PENNVEST). In accordance with an Agreement with Electrocell, the proceeds of the loan were provided to Electrocell for a nutrient pollution and odor reduction project. PENNVEST disbursed the proceeds of the loan to the Conservation District. Electrocell is obligated to make timely payments directly to PENNVEST in amounts necessary to satisfy the debt service requirements of the Bonds. Accordingly, no recourse can be made against the Conservation District for payment of principal or interest on the loan.

NOTE 7: RISK MANAGEMENT

The Conservation District is exposed to the various risk of loss related to employee illness and disability; theft of, or damage to, and destruction of assets; errors and omissions; and natural disasters. The Conservation District has purchased various insurance policies to safeguard its assets from risk of loss. During the years ended December 31, 2016, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 8: ECONOMIC DEPENDENCY

Approximately 79% of the Conservation District's funding is from the County of Lancaster and State and Federal subsidies. Reduction or loss of this funding could have a significant effect on the Conservation District's programs and activities.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

LANCASTER COUNTY CONSERVATION DISTRICT  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH FUND BALANCES - BUDGET AND ACTUAL-  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Receipts:			
County Support	\$ 247,941	\$ 231,941	\$ (16,000)
Other Local Support	-	10,122	10,122
State and Federal Subsidies	2,074,794	2,100,002	25,208
Erosion and Sedimentation Program Income	452,500	536,546	84,046
Activity Income	13,069	19,174	6,105
Sales Income	32,000	37,669	5,669
Interest Income	3,019	8,544	5,525
Other Income	-	3,727	3,727
	<u>2,823,323</u>	<u>2,947,725</u>	<u>124,402</u>
Disbursements:			
Conservation Services:			
Salaries and wages	1,351,715	1,418,987	(67,272)
Employee Benefits	474,684	438,739	35,945
Travel Expenses	28,950	13,946	15,004
District Vehicle Expenses	17,500	41,735	(24,235)
Meetings and Training Costs	21,540	16,914	4,626
Supplies	22,750	18,512	4,238
Telephone	22,475	22,150	325
Postage	6,550	7,529	(979)
Equipment and IT Support	32,368	58,321	(25,953)
Office rent	74,830	74,830	-
Other Administrative	45,175	37,285	7,890
Contingency Costs	45,700	-	45,700
District Activity	46,875	49,216	(2,341)
Miscellaneous	-	3,424	(3,424)
Unrealized Loss on Investments	-	211	-
Grants	552,500	483,452	69,048
	<u>2,743,612</u>	<u>2,685,251</u>	<u>58,572</u>
	79,711	262,474	182,763
Cash Fund Balance at Beginning of Year	<u>1,863,539</u>	<u>1,863,539</u>	<u>-</u>
Cash Fund Balance at End of Year	<u>\$ 1,943,250</u>	<u>\$ 2,126,013</u>	<u>\$ 182,763</u>



# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' 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

Board of Directors  
LANCASTER COUNTY CONSERVATION DISTRICT  
Lancaster, Pennsylvania

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 cash basis financial statements of the governmental activities, the business-type activities, and major fund information of the LANCASTER COUNTY CONSERVATION DISTRICT, as of and for the year ended December 31, 2016, and the related notes to the cash basis financial statements, which collectively comprise the LANCASTER COUNTY CONSERVATION DISTRICT's cash basis financial statements, and have issued our report thereon dated August 7, 2017.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LANCASTER COUNTY 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 the LANCASTER COUNTY CONSERVATION DISTRICT's internal control. Accordingly, we do not express an opinion on the effectiveness of the LANCASTER COUNTY 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.

Our consideration of internal control was for the limited purposes 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LANCASTER COUNTY 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*.

<b>Harrisburg</b>	<b>Philadelphia</b>	<b>Pittsburgh</b>	<b>Greensburg</b>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, Pa 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103	210 Tollgate Hill Road Greensburg, PA 15601 724.834.2151 Fax 724.834.5969

# Zelenkofske Axelrod LLC

Board of Directors  
LANCASTER COUNTY CONSERVATION DISTRICT  
Lancaster, Pennsylvania

## **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.

*Zelenkofske Axelrod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
August 7, 2017