

**MORRISON SOIL AND WATER CONSERVATION DISTRICT  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**Mayer, Porter & Nelson, Ltd.  
Certified Public Accountants**



**MORRISON SOIL AND WATER CONSERVATION DISTRICT**  
**TABLE OF CONTENTS**  
**December 31, 2011**

	<u>Page(s)</u>
<b>Organization</b>	1
<b>Independent Auditor's Report</b>	2
<b>Management's Discussion and Analysis</b>	3-8
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	15
Notes to Financial Statements	16-27
<b>Additional Reports</b>	
Auditor's Report on Minnesota Legal Compliance	28

**MORRISON SOIL AND WATER CONSERVATION DISTRICT  
ORGANIZATION  
December 31, 2011**

	<b><u>Term Expires</u></b>
<b><u>SUPERVISORS</u></b>	
Cynthia Anez	1-01-13
Tom Brutscher	1-01-13
Claude Dahmen	1-01-15
Robert Holmgren	1-01-13
Marvin Stangl	1-01-15

**OFFICERS**

CHAIRPERSON	Claude Dahmen
VICE-CHAIRPERSON	Robert Holmgren
SECRETARY	Tom Brutscher
TREASURER	Cynthia Anez

**FISCAL MANAGER**

Helen McLennan

# Mayer, Porter & Nelson, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS

Charles G. Mayer, CPA

Keith G. Porter, CPA  
INDEPENDENT AUDITOR'S REPORT

Julie A. Nelson, CPA

To the Supervisors  
Morrison Soil and Water Conservation District  
Little Falls, MN 56345

We have audited the accompanying financial statements of the governmental activities and the major fund of Morrison Soil and Water Conservation District (District) as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrison Soil and Water Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Morrison Soil and Water Conservation District as of December 31, 2011, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis pages 3 through 8 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 U.S. generally accepted auditing standards, 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.

*Mayer, Porter & Nelson, Ltd.*

December 18, 2012



**MORRISON SOIL AND WATER CONSERVATION DISTRICT**  
**Management's Discussion and Analysis**  
**(Unaudited)**

The Morrison Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the year ended 2011. 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 District's financial statements (beginning on page 9).

**FINANCIAL HIGHLIGHTS**

Total net assets at the end of the year were \$220,630. The District had no restricted net assets, \$203,631 of unrestricted net assets and \$16,999 invested in capital assets, net of related debt.

The assets of the Morrison Soil and Water Conservation District in the governmental funds balance sheet exceeded its liabilities at the close of the most recent calendar year by \$261,461. Of this amount \$1,102 is nonspendable for prepaid items and the remaining balance of \$260,359 is considered unassigned fund balance.

**USING THIS ANNUAL REPORT**

This annual report consists of three parts: Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements (on pages 11-15) tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

**The Statement of Net Assets 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 Assets 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 the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as changes in Morrison County's property tax base, the overall

financial health of Morrison County residents, and the overall state budget set by the Minnesota Legislature, to assess the overall health of the District.

In the Statement of Net Assets 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, however the District now has to rely on charges for basic services to cover the expenses that the county or state can no longer cover.

### **Fund Financial Statements**

The fund financial statements begin on page 11 and 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 this fund and the balance left at year-end that is 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 Assets and the Statement of Activities) and governmental funds in the reconciliations on pages 12 and 14.

### **THE DISTRICT AS A WHOLE**

The District's combined net assets were decreased from \$ 295,802 to \$ 220,630. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's governmental activities.

**TABLE 1 - STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES**

	2011	2010
Current and other assets	\$ 528,813	\$ 802,249
Capital assets	16,999	21,868
Total assets	<u>\$ 545,812</u>	<u>\$ 824,117</u>
Long-term liabilities outstanding	\$ 57,830	\$ 13,662
Other liabilities	267,352	514,653
Total liabilities	<u>\$ 325,182</u>	<u>\$ 528,315</u>
Net assets		
Invested in capital assets, net of related debt	\$ 16,999	\$ 21,868
Unrestricted	203,631	273,934
Total net assets	<u>\$ 220,630</u>	<u>\$ 295,802</u>



Net assets of the District governmental activities decreased by 25% (\$295,802 compared to \$220,630). Unrestricted net assets - the part of net assets without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$273,934 at December 31, 2010 to \$203,631 at December 31, 2011.

**TABLE 2 - CHANGES IN NET ASSETS  
GOVERNMENTAL ACTIVITIES**

	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 125,736	\$ 146,440
Operating grants and contributions	340,820	129,894
General revenues:		
County allocation	64,800	67,760
State aid	32,247	51,799
Unrestricted investment earnings	3,776	8,375
Miscellaneous	37,708	12,407
Total revenues	<u>605,087</u>	<u>416,675</u>
Expenses		
Conservation	<u>680,259</u>	<u>435,163</u>
Total expenses	<u>680,259</u>	<u>435,163</u>
Change in net assets	(75,172)	(18,488)
Net assets - beginning	<u>295,802</u>	<u>314,290</u>
Net assets - ending	<u>\$ 220,630</u>	<u>\$ 295,802</u>

The decrease in net assets for 2011 of \$75,172 compares to an \$18,488 decrease in net assets in 2010. The District's total revenues increased by 45%, or \$188,412. The biggest reason for the revenue increase was the Feedlot Water Quality grant deferred revenue being spent in 2011.

The cost of all governmental activities this year was \$680,259 compared to \$435,163 last year, a increase of 56%, or \$245,096. However, as shown in the Statement of Activities on page 10, some of the cost was paid by those who directly benefited from the programs (\$125,736) or by other governments and organizations that subsidized certain programs with grants and contributions (\$340,820). The District paid for the remaining "public benefit" portion of governmental activities with county allocations, state aids, interest earnings and other miscellaneous revenues.

Table 3 presents the cost of the District's only program - Conservation. Conservation includes the following activities: General Cost Share, Feedlot Water Quality Grants, Wetland Conservation Act, ACUB, and the Tree Program. The table also shows the program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the District by this function.

**TABLE 3 - COSTS OF PROGRAM SERVICES**

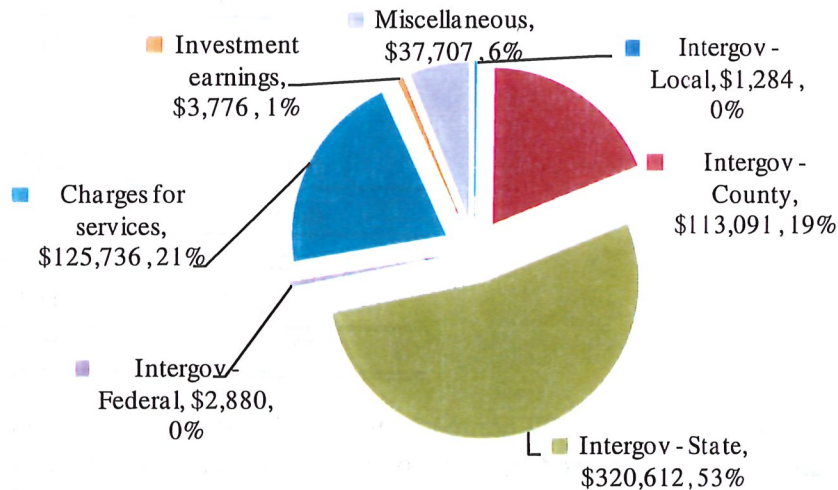
	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Conservation	\$ 680,259	\$ 435,163	\$ 213,703	\$ 158,829

**THE DISTRICT'S FUNDS**

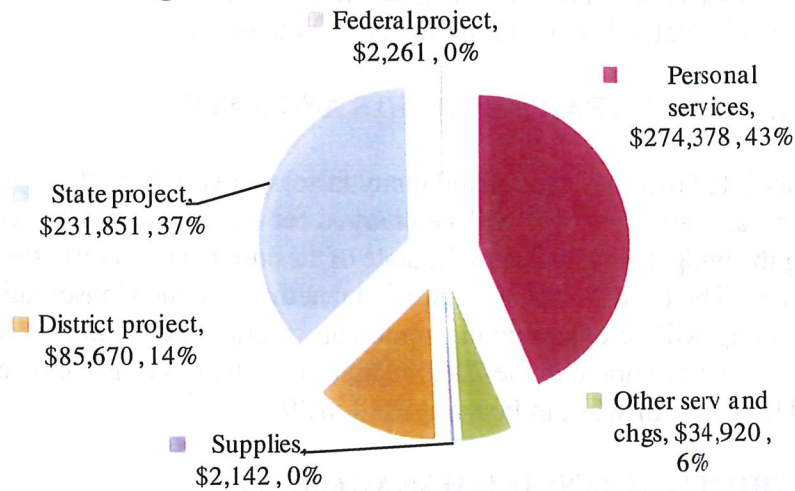
As the District completed the year, its general fund (as presented in the balance sheet on page 11) reported a fund balance of \$261,461, which is below last year's total of \$287,596. The primary reason for the General Fund's decrease in fund balance of \$26,135 is due in large part to a larger increase in project expenses over the related income.

See Figure A for a pictorial analysis of revenues by source and Figure B for expenditures by type.

**Figure A - Revenues by Source**



## Figure B - Expenditures by Type



### General Fund Budgetary Highlights

The actual expenditures were \$129,530 over the final budget amounts, a 26% variance from budget. The most significant over budget variance (\$106,851) occurred in the District's state project expenditures. This is due in large part to two animal waste projects that were not completed by the end of 2010, but were finished in 2011 and not budgeted for in 2011.

Revenues were \$315,428 over the final budgeted amount, a 109% variance from budget. The most significant over budget increase (\$275,532) occurred in the Districts state intergovernmental revenues. The majority of these revenues were deferred grant monies and it can be difficult to determine when a project will be completed and therefore properly budget for the income.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of 2011, the District had \$16,999 invested in a broad range of capital assets, including vehicles, computer technology, and office improvements. This amount represents a net decrease (including additions and deductions) of \$4,869 compared to the prior year.

This year's major deletions were some old computers and computer equipment in the amount of \$16,216.

The District's fiscal-year 2012 capital budget calls for it to spend \$2,500 for capital projects. More detailed information about the District's capital assets is presented in Notes 1 and 3 to the financial statements.

## **Long-Term Liabilities**

Obligations include accrued compensated absences. More detailed information about the District's long-term liabilities is presented in Notes 1 and 5 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget: state aid, county aid, and fees that will be charged for the program services. The District will also be watching the budget closely due to the state of the current economy to determine if changes will need to be made. The District has been notified that the Wetland Conservation Act and the Local Water Plan funding will be experiencing some cuts through the Natural Resources Block Grant. Those amounts have been noted in the 2012 budget. The District is also expecting to receive over \$93,750 in ACUB T&A for work to be completed in 2012.

## **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 Morrison Soil and Water Conservation District at 16776 Heron Rd, Little Falls, MN 56345.

**MORRISON SOIL AND WATER CONSERVATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**December 31, 2011**

	<b>Governmental Activities</b>	<b>Total</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 249,519	\$ 249,519
Investments	267,344	267,344
Due from other governmental agencies	10,848	10,848
Other assets	1,102	1,102
Capital assets, net	16,999	16,999
Total assets	\$ 545,812	\$ 545,812
<b>LIABILITIES</b>		
Accounts payable	\$ 6,261	\$ 6,261
Accrued salaries and payroll taxes	4,507	4,507
Sales tax payable	1,685	1,685
Due to other governmental agencies	553	553
Deferred revenues	240,081	240,081
Deposits - tree sales	14,265	14,265
Long-term liabilities		
Due within one year		
Compensated absences	57,830	57,830
Total liabilities	325,182	325,182
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	16,999	16,999
Unrestricted	203,631	203,631
Total net assets	220,630	220,630
Total liabilities and net assets	\$ 545,812	\$ 545,812

See notes to financial statements.

**MORRISON SOIL AND WATER CONSERVATION DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2011

<u>Functions/Programs</u>	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
Primary government	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities	Expenses	Contributions	Total	Total
Conservation	\$ 680,259	\$ 125,736	\$ 340,820	\$ (213,703)
Total governmental activities	680,259	125,736	340,820	(213,703)
Total primary government	\$ 680,259	\$ 125,736	\$ 340,820	(213,703)
<b>General revenues:</b>				
County allocation				64,800
State aid				32,247
Unrestricted investment earnings				3,776
Miscellaneous				37,708
Total general revenues, special items, and transfers				138,531
Change in net assets				(75,172)
Net assets - beginning				295,802
Net assets - ending				\$ 220,630

See notes to financial statements.

**MORRISON SOIL AND WATER CONSERVATION DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2011**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 249,519	\$ 249,519
Investments	267,344	267,344
Due from other governments	10,848	10,848
Prepaid items	1,102	1,102
Total assets	\$ 528,813	\$ 528,813
 <b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	\$ 6,261	\$ 6,261
Accrued salaries and payroll taxes	4,507	4,507
Sales tax payable	1,685	1,685
Due to other governments	553	553
Deferred revenue	240,081	240,081
Deposit - tree sales	14,265	14,265
Total liabilities	267,352	267,352
 Fund balances:		
Nonspendable	1,102	1,102
Unassigned	260,359	260,359
Total fund balances	261,461	261,461
Total liabilities and fund balances	\$ 528,813	\$ 528,813

See notes to financial statements.

**MORRISON SOIL AND WATER CONSERVATION DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
December 31, 2011**

Total fund balance, governmental funds	\$	261,461
--	----	---------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.

Capital assets		52,440
Accumulated depreciation		(35,441)

Compensated absences are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.		(57,830)
---	--	----------

Net Assets of Governmental Activities in the Statement of Net Assets	\$	220,630
--	----	---------

See notes to financial statements.



**MORRISON SOIL AND WATER CONSERVATION DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Intergovernmental		
Local	\$ 1,284	\$ 1,284
County	113,091	113,091
State	320,612	320,612
Federal	2,880	2,880
Charges for services	125,736	125,736
Investment earnings	3,776	3,776
Miscellaneous	37,707	37,707
Total revenues	605,086	605,086
<b>EXPENDITURES</b>		
District operations		
Current:		
Personal services	274,378	274,378
Other services and charges	34,920	34,920
Supplies	2,141	2,141
Total district operations	311,439	311,439
Project expenses		
District	85,670	85,670
State	231,851	231,851
Federal	2,261	2,261
Total project expenditures	319,782	319,782
Total expenditures	631,221	631,221
Net change in fund balances	(26,135)	(26,135)
Fund balances - beginning	287,596	287,596
Fund balances - ending	\$ 261,461	\$ 261,461

See notes to financial statements.

**MORRISON SOIL AND WATER CONSERVATION DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2011**

Net change in fund balances - total governmental funds: \$ (26,135)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays, \$0, were exceeded by depreciation, \$4,869, in the current period. (4,869)

Changes in the accrual for compensated absences is reflected in the expenditures in the governmental funds, but is reflected as changes in long-term liabilities in the Statement of Net Assets. (44,168)

Change in net assets of governmental activities \$ (75,172)

See notes to financial statements.

**MORRISON SOIL AND WATER CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**

**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental				
Local	\$ 0	\$ 0	\$ 1,284	\$ 1,284
County	119,528	119,528	113,091	(6,437)
State	45,080	45,080	320,612	275,532
Federal	0	0	2,880	2,880
Charges for services	112,050	112,050	125,736	13,686
Investment earnings	8,000	8,000	3,776	(4,224)
Miscellaneous	5,000	5,000	37,707	32,707
Total revenues	<u>289,658</u>	<u>289,658</u>	<u>605,086</u>	<u>315,428</u>
<b>EXPENDITURES</b>				
District operations				
Current:				
Personal services	286,274	286,274	274,378	(11,896)
Other services and charges	33,800	33,800	34,920	1,120
Supplies	2,500	2,500	2,141	(359)
Capital outlay	<u>2,500</u>	<u>2,500</u>	<u>          </u>	<u>(2,500)</u>
Total district operations	325,074	325,074	311,439	(13,635)
Project expenses				
District	51,617	51,617	85,670	34,053
State	125,000	125,000	231,851	106,851
Federal	<u>0</u>	<u>0</u>	<u>2,261</u>	<u>2,261</u>
Total project expenses	<u>176,617</u>	<u>176,617</u>	<u>319,782</u>	<u>143,165</u>
Total expenditures	<u>501,691</u>	<u>501,691</u>	<u>631,221</u>	<u>129,530</u>
Net change in fund balances	(212,033)	(212,033)	(26,135)	<u>\$ 185,898</u>
Fund balances - beginning	<u>287,596</u>	<u>287,596</u>	<u>287,596</u>	
Fund balances - ending	<u>\$ 75,563</u>	<u>\$ 75,563</u>	<u>\$ 261,461</u>	

See notes to financial statements.

**MORRISON SOIL AND WATER CONSERVATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**1. Summary of significant accounting policies**

**Financial reporting entity**

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

The District is not considered a part of Morrison 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.

U.S. 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.

**Basis of presentation**

The accompanying financial statements of the Morrison Soil and Water Conservation District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial

reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2011. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

### **Basic financial statement presentation**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the nonfiduciary activities of the District.

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Depreciation expenses can be specifically identified by function and are included in the direct expenses of each function.

### **Measurement focus and basis of accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenues must meet both the measurable and available criteria to be recognized. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue sources susceptible to accrual include intergovernmental revenues, charges, and interest. Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred. If the District also receives an annual appropriation from the County, it is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

Investment earnings 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.

2. Expenditures are generally recorded when a liability is incurred. Expenditures also include the acquisition of fixed assets. 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.

### **Description of funds**

The District reports the following major governmental fund:

#### General Fund

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

### **Budget**

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 U.S. generally accepted accounting principles. Amendments to the original budget require board approval. No amendments were adopted during the year. Appropriations lapse at year-end. The District does not use encumbrance accounting.

### **Cash and investments**

Investments are stated at fair value except for non-brokered certificates of deposit which are stated at cost.

### **Capital assets**

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as all assets with an estimated useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Property and equipment of the government are depreciated using the straight-line method over the useful lives. Useful lives vary from 3 to 15 years for property and equipment.

## **Compensated absences**

### **Vacation**

Under the District's personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from eight to fourteen hours per month. As of December 31, 2011, vacation payable is \$15,422.

### **Sick leave**

Sick leave shall be earned by full-time regular employees at the rate of eight (8) hour maximum for each full month of service worked. Though sick leave shall be accrued, probationary employees may not use it until they have successfully completed their probationary period. The maximum carry-over of sick leave from one year to the next per employee shall be 800 hours.

Effective June 1, 2011, an employee who leaves the employ of the SWCD in good standing (minimum notice and has been with the District a minimum of 15 years) shall receive severance payment of up to 600 hours of unused sick leave in addition to any unused vacation leave. All employees eligible for the severance pay will elect to have 3 weeks (120 hours) of their severance payment (from the Sick Leave portion) deposited into their individual Post Retirement Health Care Savings Plan (HCSP) account if participating. The remaining dollars will be paid in a lump payment to the employee and be subject to all withholdings. As of December 31, 2011, sick leave payable is \$42,408.

## **Net assets**

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

## **Fund balance classifications**

In the fund financial statements, governmental funds report fund balance in classifications that disclose restraints for which amounts in those funds can be spent. These classifications are as follows:

- Nonspendable – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or are imposed by law or enabling legislation.
- Committed – Consists of internally imposed constraints that are established by majority vote of the Board of Supervisors. The formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint may be determined in the subsequent period. To remove the constraint on specified use of committed resources, the Board of Supervisors can only remove the constraint by a subsequent majority vote.
- Assigned – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates authority. The Board of Supervisors has not yet delegated the power to assign fund balances to anyone not on the Board of Supervisors.
- Unassigned – Represents the residual classification for the General Fund and may also reflect negative residual amounts in other funds.

If resources from more than one fund balance classification could be spent, it is the District's practice to spend resources from fund balance classifications in the following order (first to last, according to the hierarchy set forth by the standard): restricted, committed, assigned, and unassigned or, as special circumstances arise.

### **Estimates**

The preparation of financial statements in conformity with U.S. 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Subsequent events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 18, 2012, the date the financial statements were available to be issued.

### **Change in Accounting Principle**

For the year ended December 31, 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund



balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The District is implementing this standard retroactively. See also Note 7 for more information on these fund balance classifications.

**2. Deposits and investments**

**Deposits**

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the Board of Supervisors.

- **Custodial credit risk** – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s deposit policy for custodial credit risk follows Minnesota Statutes for deposits.

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

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

Deposit balances at December 31, 2011 are as follows:

	<u>Carrying amount</u>	<u>Bank balance</u>
Total bank deposits (checking, savings, and CD's)	\$ 249,519	\$ 252,438

The District’s deposits in banks at December 31, 2011 were entirely covered by federal depository insurance, NCUA insurance, private insurance by the Excess Share Insurance (ESI) Corporation, or by pledged collateral held by the bank’s agent in the District’s name in amounts equal to at least 110% of the amount in excess of the federal depository insurance, as required by Minnesota Statutes.

## **Investments**

The District does not have an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes as follows:

- A. Direct obligations or obligations guaranteed by the United States or its agencies.
- B. General obligations rated “A” or better.
- C. Revenue obligations rated “AA” or better.
- D. General obligations of the Minnesota Housing Finance Agency rated “A” or better.
- E. Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- F. Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers’ acceptances of United States banks.
- G. High-risk mortgage-backed securities described as interest-only or principal-only mortgage-backed securities and mortgage derivative securities that have an expected average life greater than ten years, and that have an expected average life that will extend by more than four years as the result of an immediate and sustained parallel shift in the yield curve of plus 300 basis points, that will shorten by more than six years as the result of an immediate and sustained parallel shift in the yield curve of minus 300 basis points, or will have an estimated change in price of more than 17 percent as the result of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.
- H. Temporary general obligation bonds of the same governmental entity.
- I. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, with a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers regulated by the SEC and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.
- J. Securities lending agreements, including custody agreements, with financial institutions qualified as a “depository” by the government entity or with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, and which has its principal executive office in Minnesota.
- K. Shares of Minnesota joint powers investment trusts whose investments are restricted to securities described in A-H; or units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency in which investments are restricted to securities described in A-H; or shares of investment companies registered under the Federal Investment Company Act of 1940 which hold themselves out as money market funds meeting the conditions of rule 2a-7 of the SEC and rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a nationally recognized statistical rating agency and is invested in financial instruments with a final maturity of 13 months or less.

- L. Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing and with a credit quality in one of the two highest categories by a nationally recognized rating agency.

The District's investments are potentially subject to various risks including the following:

- **Custodial credit risk** - The risk that in the event of a failure of the counterparty to an investment transaction (typically a brokerage firm or financial institution) the government would not be able to recover the value of the investment or collateral securities.
- **Credit risk** - The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- **Concentration risk** - Investing 5 percent or more of the District's portfolio in the securities of a single issuer. This disclosure excludes U.S. government securities that are explicitly guaranteed by the U.S. government.
- **Interest rate risk** - The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

The following table presents the District's deposit and investment balances at December 31, 2011, and information relating to potential investment risks:

Deposits/Investments	Interest rate risk Maturity date	Concentration risk Over 5% of portfolio	Credit risk Credit rating Moody/S&P	Carrying value
Cash equivalents				
Deposits (checking, savings and CD's)			n/a	\$ 249,519
Stifel Nicolaus investments				
Stifel Nicolaus money market fund			n/a	2,239
Brokered certificate of deposit	7/26/2012	7%	n/a	20,000
Brokered certificate of deposit	8/10/2012	19%	n/a	50,000
Brokered certificate of deposit	11/21/2012	17%	n/a	45,000
Brokered certificate of deposit	2/11/2013	19%	n/a	49,782
Brokered certificate of deposit	5/14/2012	19%	n/a	50,160
Brokered certificate of deposit	5/21/2012	19%	n/a	50,163
Total cash and investments				\$ 516,863

### 3. Capital assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets				
Machinery and equipment	\$ 68,656	\$	\$(16,216)	\$ 52,440
Total capital assets	<u>68,656</u>		<u>(16,216)</u>	<u>52,440</u>
Less accumulated depreciation for:				
Machinery and equipment	<u>46,788</u>	<u>4,869</u>	<u>(16,216)</u>	<u>35,441</u>
Total accumulated depreciation	<u>46,788</u>	<u>4,869</u>	<u>(16,216)</u>	<u>35,441</u>
Total capital assets, net	<u>\$ 21,868</u>	<u>\$ (4,869)</u>	<u>\$ 0</u>	<u>\$ 16,999</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:

Conservation	<u>\$ 4,869</u>
Total depreciation expense - governmental activities	<u>\$ 4,869</u>

#### 4. Deferred revenue

Deferred revenue represents unearned advances from the Minnesota Board of Water and Soil Resources and Morrison County for various programs. Revenues will be recognized when the related program expenditures are recorded. Deferred revenue for the year ended December 31, 2011 consists of:

General Services	\$ 5,783
Feedlot Cost-Share	125,491
State Cost-Share	68,355
Other state projects	992
BWSR state service grant	5,252
Native Buffer Invasive Species	<u>34,208</u>
Total deferred revenue	<u>\$ 240,081</u>

#### 5. Long-term liabilities

Changes in compensated absences payable for the year ended December 31, 2011 are:

	<u>12/31/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/11</u>
Vacation payable	\$ 10,662	\$ 16,889	\$ (12,129)	\$ 15,422
Sick leave payable	<u>3,000</u>	<u>39,408</u>		<u>42,408</u>
	<u>\$ 13,662</u>	<u>\$ 56,297</u>	<u>\$ (12,129)</u>	<u>\$ 57,830</u>

## **6. Defined benefit pension plan**

### **A. Plan description**

All full-time and certain part-time employees of the Morrison Soil and Water Conservation District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**B. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. In 2011, Morrison Soil and Water Conservation District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District’s contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$15,359, \$15,300, and \$13,895, respectively. The District’s contributions were equal to the contractually required contributions for each year as set by state statute.

**7. Fund balances**

During fiscal year 2011, the District retroactively implemented the requirements of a new accounting pronouncement, GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.”

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. Any such restrictions which have an accumulated deficit rather than positive balance at December 31<sup>st</sup> are included in unassigned fund balance in the District’s financial statements in accordance with U.S. generally accepted accounting principles.

	<u>Fund balances</u>
Nonspendable:	
Prepaid items	\$ 1,102
Total nonspendable	<u>1,102</u>
Unassigned:	
Unassigned	<u>260,359</u>
Total unassigned	<u>260,359</u>
Total	<u>\$ 261,461</u>

**8. 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 natural disasters. To cover these risks, the District has purchased commercial insurance. Property and casualty liabilities and workers' compensation are insured through Minnesota Counties Intergovernmental Trust. The District is covered for errors and omissions through Minnesota Counties Intergovernmental Trust.

The Minnesota Counties Intergovernmental Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The District's workers compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience, workers compensation rates and salaries for the year are known. The final premium adjustment was recorded in the year the adjustment was made.

**9. Expenditures in excess of appropriations**

The following fund incurred expenditures in excess of appropriations:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>
General	\$ 631,221	\$ 501,691

State project expenses were higher than budgeted because more feedlot water quality projects were completed than had been originally anticipated. Related revenues for these projects are likewise in excess of budget.

**10. Contingencies**

The District has participated in state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**11. Operating leases**

The District leases office space under a verbal one year lease agreement which commenced January 1, 2011. Payments under the lease are \$492 per month. The District also leased a copier under a 36-month lease which expired in December 2011. Total rent expense for 2011 was \$10,064.

**ADDITIONAL REPORTS**



# Mayer, Porter & Nelson, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS

Charles G. Mayer, CPA

Keith G. Porter, CPA

Julie A. Nelson, CPA

## AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Supervisors  
Morrison Soil and Water Conservation District  
Little Falls, MN 56345

We have audited the financial statements of the governmental activities and the major fund of Morrison Soil and Water Conservation District as of and for the year ended December 31, 2011 and have issued our report thereon dated December 18, 2012.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the District is not allowed to issue debt.

The results of our tests indicate that for the items tested, Morrison Soil and Water Conservation District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of management, the Supervisors and the State of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

*Mayer, Porter + Nelson Ltd.*

December 18, 2012

