

2012 Financial Report

Nobles Soil & Water Conservation District

January 1, 2012 to December 31, 2012

2012 Financial Report

Nobles Soil & Water Conservation District

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Nobles Soil and Water Conservation District's discussion and analysis provides an overview of the District's financial activities for the fiscal year ended December 31, 2012. 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 Nobles SWCD's financial statements beginning on page 8.

FINANCIAL HIGHLIGHTS

- The Nobles Soil and Water Conservation District's total net assets from governmental activities increased 12% from 2011 to 2012.
- The District increased its fund balance in 2012. This surplus in unrestricted governmental net assets increased primarily because the District had not budgeted for the technical and assistance revenue from a couple of the BWSR grants that were completed in 2012.
- The total revenues increased significantly from 2011 due to the District receiving several new grants in 2012. The intergovernmental-state revenue was over twice as much as was initially budgeted because of the state grant revenue. The increase in Project Expenditures-District & State, also reflect this additional grant revenue.
- The deferred revenue on the Statement of Net Assets and Governmental Fund Balance Sheet had significantly decreased in 2012, due to completion of many of the landowner's contracts.

USING THIS ANNUAL REPORT

This annual report consists of two parts: 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 8 and 9) provide information about the activities of the SWCD as a whole and present a longer-term view of the SWCD's finances. Fund financial statements start on page 8. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the SWCD's operations in more detail than the government-wide statements by providing information about the SWCD's most significant funds. Since SWCD's are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. The Nobles SWCD has elected to present in this format.

The Statement of Net Assets and the Statement of Activities

Our analysis of the Nobles SWCD as a whole begins on page 2. One of the most important questions asked about the SWCD's finances is, "Is the Nobles SWCD 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 SWCD as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the SWCD’s net assets and changes in them. You can think of the SWCD’s net assets — the difference between assets and liabilities—as one way to measure the SWCD’s financial health, or financial position. Over time, increases or decreases in the SWCD’s net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the Nobles SWCD.

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

Reporting the Nobles SWCD General Fund

Fund Financial Statements

Our analysis of the SWCD’s general fund begins on page 5. The fund financial statements begin on page 8 and provide detailed information about the general fund—not the SWCD as a whole. The SWCD presents only a general fund, which is a governmental fund. All of the SWCD’s basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the SWCD’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 SWCD’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 a reconciliation included with the financial statements.

THE NOBLES SWCD AS A WHOLE

The SWCD’s combined net assets increased from \$234,981.00 in 2011 to \$264,220.00 in 2012. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Nobles SWCD’s governmental activities.

Table 1
Net Assets

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Current and other assets	335,523.00	559,301.00
Capital assets	<u>33,293.00</u>	<u>47,633.00</u>
Total assets	\$ 368,816.00	\$ 606,934.00
Long-term liabilities	14,364.00	15,987.00
Other liabilities	<u>90,232.00</u>	<u>355,966.00</u>
Total liabilities	\$ 264,220.00	\$ 371,953.00
Net assets		
Invested in capital assets, net of debt	33,293.00	47,633.00
Committed or Assigned	85,000.00	85,000.00
Unrestricted	<u>145,927.00</u>	<u>102,348.00</u>
Total net assets	\$ 264,220.00	\$ 234,981.00

The net assets of the SWCD's governmental activities were increased by 12 percent (\$234,981 compared to \$264,220). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from an \$187,348 surplus at December 31, 2011, to a \$230,927 surplus at the end of this year.

This surplus in unrestricted governmental net assets increased primarily because the District had not budgeted for the technical and assistance funding from a couple of the BWSR grants that were completed in 2012. Also not all the contracts were complete, so Project Expenditures-State were well under budget as was the capital outlay account because no major purchases of equipment were purchased.

TABLE 2
Changes in Net Assets

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues:		
Charges for services	44,005.00	42,394.00
Intergovernmental Revenue	798,042.00	491,030.00
Misc. Revenues - Interest	798.00	1,461.00
Misc. Revenues - Other	<u>8,507.00</u>	<u>12,926.00</u>
Total Revenues	\$ 851,352.00	\$ 547,811.00
Program Expenses		
Personal Services	204,255.00	178,488.00
Other Services & Charges	48,345.00	32,916.00
Supplies	2,793.00	705.00
Depreciation	14,340.00	14,414.00
Loss on Disposal of Assets	0.00	3,188.00
Capital Outlay	0.00	31,280.00
Project Expense - District	74,864.00	80,956.00
Project Expense – State	<u>477,516.00</u>	<u>220,077.00</u>
Total Expenses	\$ 822,113.00	\$ 530,744.00
Increase (decrease) in net assets	<u>\$29,239.00</u>	<u>\$17,067.00</u>

The SWCD’s total revenues, excluding special items, increased by \$303,541.00, of which was almost completely due to the increase in state grants. The total cost of all programs and services increased significantly, \$291,369.00, again primarily due to additional contract payments being made to landowners from the grants received. Our analysis below separately considers the operations of governmental activities.

Governmental Activities

Revenues for the Nobles SWCD’s governmental activities increased significantly, again due to several state grants received, which in turn the total expenses increased similarly. This compares to a similar increase in net assets in 2011.

The cost of all governmental activities this year was \$822,113.00 compared to \$530,744.00 last year. However, as shown in the Statement of Activities on pages 8-9, the amount that our taxpayers ultimately financed for these activities through County, State and Local allocations was only \$113,818.00, because some of the cost was paid by those who directly benefitted from the programs \$44,005.00 or by other governments and organizations that subsidized certain programs with grants and contributions \$684,224.00. Overall, the Nobles SWCD’s governmental program revenues, including intergovernmental aid and fees for services, increased in 2012 from \$491,030.00 to \$798,042.00, principally based on increases in State Grants, namely the Clean Water Legacy Funding. The Nobles SWCD paid for the remaining “public benefit” portion of governmental activities with other revenues, such as interest.

Table 3 presents the cost of each of the Nobles SWCD’s four largest programs which are grouped under the Conservation category: tree program, cost-share program, grass seed program and education program. The net cost shows (total cost less revenues generated by the activities) shows \$0.

**Table 3
Governmental Activities**

	Total Cost		Net Cost	
	2012	2011	2012	2011
Conservation	\$ 80,955	\$ 74,864	\$0.00	\$0.00
All others	32,916	48,345	0.00	0.00
Totals	<u>\$113,871</u>	<u>\$123,209</u>	<u>\$0.00</u>	<u>\$0.00</u>

THE NOBLES SWCD’S FUNDS

As the SWCD completed the year, its general fund, as presented in the balance sheet on page 8, reported a combined fund balance of \$245,291.00, which is significantly above last year’s total of \$203,335.00. The primary reasons for the General Fund’s increase mirror the governmental activities analysis highlighted on pages 2 and 3.

General Fund Budgetary Highlights

The SWCD made revisions to their budget in July. In the Nobles SWCD 2012 budget, the actual charges to appropriations, (expenditures) were \$91,433.00 under the budgeted amount, almost entirely due to the fact that some of the contracts written with grant funding were not completed (funds were not spent) in 2012 and the grants were deferred to 2013. Also the actual State grant was revised to include additional funding for a Feedlot Grant that was deferred to 2013.

Other than the State Grants, the most significant positive variance occurred in the Nobles SWCD's Charges for Services, tree matting and tree sales \$4,505.00.

Due to the technical and administration dollars from several of the state grants that were completed in 2012; the 2012 Intergovernmental Revenue-State program was significantly higher than the 2011 Intergovernmental Rev.- State funding which affected grant resources available from appropriations.

CAPITAL ASSET AND LONG TERM LIABILITIES

Capital Assets

At the end of 2012, the Nobles SWCD had \$33,293.00 invested in a broad range of capital assets, including building improvements, vehicles and equipment. (See Table 4 below). This amount represents a net decrease (including additions and deductions) of just under \$14,340.00, or 30 percent, under last year.

Table 4
Capital Assets at Year-end
(Net of Depreciation, in Thousands)

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Leasehold Improvements	\$ 0	\$ 0
Vehicles	18,901	26,995
Equipment	<u>14,392</u>	<u>20,638</u>
	<u>\$ 33,293</u>	<u>\$47,633</u>

There were no major additions to the Capital Assets in 2012 and none of the capital outlay funds, that had been budgeted, were used.

Long-Term Liabilities

The Nobles SWCD has obligations that include accrued vacation pay, but currently has no outstanding notes. More detailed information about the SWCD's long-term liabilities is presented in Note II C, to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Nobles SWCD's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget and fees that will be charged for the for the business-type activities. Some of the economic factors taken into account for the 2013 budget when considering our revenues included: sales of trees and tree matting, state funding, federal funding and the County allocation. Expense factors included project expenses and employee salary increases.

CONTACTING THE NOBLES SWCD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the SWCD's finances and to show the SWCD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Nobles Soil and Water Conservation District, 1567 McMillan St., Suite 3, Worthington, MN 56187, at 507-376-9150, extension #3.

NOBLES SOIL AND WATER CONSERVATION DISTRICT
WORTHINGTON, MINNESOTA

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Adjustments See Notes	Statement of Net Assets
<u>Assets</u>			
Cash and investments	\$ 287,275.63		\$ 287,275.63
Accounts Receivable	300.00		300.00
Interest Receivable	300.51		300.51
Other Receivable	348.58		348.58
Due from Other Governments	47,298.70		47,298.70
Capital Assets:			
Equipment (net of accumulated depreciation)		33,293.45	33,293.45
Total Assets	\$ 335,523.42	\$ 33,293.45	\$ 368,816.87
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	\$ -		\$ -
Deferred revenue	88,446.26		88,446.26
Due to Other Governments	1,786.00		1,786.00
Long-term Liabilities:			
Compensated absences		14,364.33	14,364.33
Total Liabilities	\$ 90,232.26	\$ 14,364.33	\$ 104,596.59
<u>Fund Balance/Net Assets</u>			
Fund Balance/Net Assets			
Nonspendable Unrestricted	-	-	-
Committed or Assigned	85,000.00	(85,000.00)	
Unassigned	160,291.16	(160,291.16)	-
Total Fund Balance	\$ 245,291.16	\$ (245,291.16)	\$ -
Net Assets			
Invested in capital assets		33,293.45	33,293.45
Unrestricted		230,926.83	230,926.83
Total Net Assets		\$ 264,220.28	\$ 264,220.28
Notes are an integral part of the basic financial statements.			

NOBLES SOIL AND WATER CONSERVATION DISTRICT
 WORTHINGTON, MINNESOTA

STATEMENT OF ACTIVITIES AND
 GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Adjustments See Notes	Statement of Activities
Revenues			
Intergovernmental	\$ 798,042.11	\$ -	\$ 798,042.11
Charges for services	44,005.26		44,005.26
Investment earnings	797.46		797.46
Miscellaneous	8,507.27		8,507.27
Total Revenues	\$ 851,352.10	\$ -	\$ 851,352.10
Expenditures/Expenses			
Conservation			
Current	\$ 809,395.82	\$ (1,622.84)	\$ 807,772.98
Capital outlay	-	-	-
Depreciation		14,339.79	14,339.79
Total Expenditures/Expenses	\$ 809,395.82	\$ 12,716.95	\$ 822,112.77
Excess of Revenues Over (Under) Expenditures/Expenses	41,956.28	(12,716.95)	29,239.33
Fund Balance/Net Assets January 1	203,334.88	31,646.07	234,980.95
Fund Balance/Net Assets December 31	\$ 245,291.16	\$ 18,929.12	\$ 264,220.28
Notes are an integral part of the basic financial statements.			

Fixed Asset Description	Exp. Func.	Purch/ Const.	Useful Life	Adjusted Balance	Additions	Deletions	Ending Balance	Beginning Accumulated Depreciation	2012 Depreciation	Deletion	Ending Accumulated Depreciation
Land				0.00			0.00				0.00
Buildings											
Tree Building -Leasehold Imp.	Cons.	2002	5	12,975.00			12,975.00	12,975.00	0.00		12,975.00
Total Buidings				12,975.00			12,975.00	12,975.00	0.00		12,975.00
Vehicles											
2011 GMC Sierra Pick-up	Cons.	2011	5	24,815.00			24,815.00	2,481.50	4,963.00		7,444.50
Radco Pick-up Topper - GMC	Cons.	2011	7	1,441.00			1,441.00	102.93	205.86		308.79
Radco Pick-up Topper - Chevy	Cons.	2008	7	1,116.00			1,116.00	558.00	159.43		717.43
2008 Chevrolet Pick-up	Cons.	2007	5	27,653.73			27,653.73	24,888.35	2,765.38		27,653.73
2003 Ford Pick-up	Cons.	2003	5	21,176.00			21,176.00	21,176.00	0.00		21,176.00
Total Vehicles				76,201.73	0.00	0.00	76,201.73	49,206.78	8,093.67	0.00	57,300.45
Equipment											
Great Plains Grass Drill	Cons.	2007	7	9,760.00			9,760.00	6,274.31	1,394.29		7,668.60
Dew Drop Drill	Cons.	2009	7	7,000.00			7,000.00	2,500.00	1,000.00		3,500.00
Drill Trailer A16	Cons.	2009	7	3,041.15			3,041.15	1,086.13	434.45		1,520.58
Mcllrayv Tree Matting Machine	Cons.	2004	7	3,850.00			3,850.00	3,850.00	0.00		3,850.00
Tree Planter - #1	Cons.	1974	7	2,000.00			2,000.00	2,000.00	0.00		2,000.00
Tree Planter - #2	Cons.	1974	7	2,000.00			2,000.00	2,000.00	0.00		2,000.00
Tree Planter - #3	Cons.	2005	7	501.00			501.00	501.00	0.00		501.00
Tandy Computer	Cons.	1994	5	1,300.00			1,300.00	1,300.00	0.00		1,300.00
Dell Vostro 200 Desktop/Jane	Cons.	2008	5	1,279.00			1,279.00	895.30	255.80		1,151.10
Dell Vostro 1510 Laptop/Ed	Cons.	2008	5	1,784.00			1,784.00	1,248.80	356.80		1,605.60
Dell Vostro 1510 Laptop/Ross	Cons.	2008	5	1,784.00			1,784.00	1,248.80	356.80		1,605.60
Dell OptiPlex 360 (Aaron)	Cons.	2009	5	839.90			839.90	419.95	167.98		587.93
Toshiba 2830c Copier	Cons.	2010	7	5,762.93			5,762.93	1,234.92	823.28		2,058.20
Downing Display	Cons.	2011	7	1,144.00			1,144.00	81.71	163.43		245.14
Dell Desktop/Laptop (Chessa)	Cons.	2011	3	2,151.86			2,151.86	358.64	717.29		1,075.93
Dell Vostro 3500 Laptop (Ed)	Cons.	2011	3	864.00			864.00	144.00	288.00		432.00
Dell Vostro 3500 Laptop (Ross)	Cons.	2011	3	864.00			864.00	144.00	288.00		432.00
Total Equipment				45,925.84	0.00	0.00	45,925.84	25,287.56	6,246.11	0.00	31,533.67
Total Capital Assets				\$135,102.57	\$0.00	\$0.00	\$135,102.57	\$87,469.34	\$14,339.78	\$0.00	\$101,809.12
				Jan. 1	Dec. 31						
Capital Assets				135,102.57	135,102.57						
Accumulated Depreciation				(87,469.34)	(101,809.12)						
Net book value				\$47,633.23	\$33,293.45						

**BREAKDOWN OF COUNTY REVENUE
2012**

COUNTY REVENUES (breakdown):

ANNUAL ALLOCATION	\$ 52,000.00
WATER PLAN MONEY	\$ 1,350.00
WETLAND MONEY	\$ 8,630.00
FEEDLOT MONEY	\$ 1,875.00
HHW TECH. ASSISTANCE	\$ 10,400.00
OTHER	\$ 4,563.00
TOTAL	<u>\$ 78,818.00</u>

NOTE: The total should agree with amount reported as **County Revenue** in the "Budgetary Comparison Schedule."

**DEFERRED REVENUE BREAKDOWN
2012**

Balance of BWSR Service Grants: \$ 12,212.80

Balance of unencumbered BWSR Cost-Share Grants:

2012 State Cost-Share	17,212.15	
2013 State Cost-Share	18,078.40	
2011 So. MN Flood Relief Grant Phase #1 (includes TA)	10,730.50	
2011 So. MN Flood Relief Grant Phase #2 (includes TA)	<u>21,378.91</u>	
Current Year Total		\$ 67,399.96

Balance of encumbered BWSR Cost-Share Grant (list each contract separately)

<u>Program</u>	<u>Contract No.</u>	<u>Name</u>	<u>Contract Amount</u>	
So MN Flood Ref.	FRG-2011-2-2	John Penning	<u>8,833.50</u>	\$ <u>8,833.50</u>

TOTAL OF ALL DEFERRED REVENUE: **\$88,446.26**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Nobles Soil and Water Conservation District (District) conform to generally accepted accounting principles. These statements are prepared in accordance with Government Accounting Standards Board Rule 34, which changes the way both the statement of condition and the statement of revenues and expenses are reported.

A. 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 Nobles Soil and Water Conservation District, in cooperation with the U.S. Department of Agriculture Natural Resources Conservation Service and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in reducing costly waste of soil and water resulting from soil erosion, sedimentation, pollution, and improper land use.

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

The accounts of the Nobles Soil and Water Conservation District are organized on the basis of a fund and two account groups, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

1. Governmental Funds: General Fund

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

2. General Fixed Assets Account Group

This account group is used to record the District's general fixed assets, which include furniture and equipment.

3. General Long-Term Debt Account Group

This account group records earned but unpaid vacation and sick leave that has vested or is expected to vest.

C. Government-Wide Financial Statements

The government-wide financial statements (i.e. The Statement of Net Assets and the Statement of Activities) report information on all the nonfiduciary activities of the District. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

The District's financial statements (general fund) are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting,

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide Financial Statements (Continued)

revenues are recognized when they become susceptible to accrual, that is, both measurable and available. 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. Expenditures are recorded when the corresponding liabilities are incurred.

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.

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 non-exchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

D. Budget Information

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Equity Accounts

1. Assets

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

Beginning with statement year 2004, fixed assets (capital assets) are no longer reported on a gross basis. They are now reported on a net (depreciated) basis. General fixed assets are still valued at historical or estimated historical cost.

2. Liabilities

Long-term liabilities, such as compensated absences, are accounted for in the General Long-Term Debt Account Group.

3. Equity

Investment in general fixed assets represents the District's equity in general fixed assets.

Reserved fund balance indicates the portion of fund equity that has been legally segregated for specific purposes or is not appropriate for spending.

Unreserved, designated account indicates the portion of fund equity that the District has set aside for planned future expenditures.

Unreserved, undesignated fund balance account indicates the portion of fund balance that is available for budgeting and spending in future periods.

F. Explanation of Adjustments Column in Statements

1. Capital Assets

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

2. Long-Term liabilities

In the Statement of Net Assets and Government Fund Balance Sheet, an adjustment is made to reflect the total of Compensated Absence liability the district has as of the report date. See Note 1-G below.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Explanation of Adjustments Column in Statements (continued)

3. Depreciation and Change in Compensated Absences for the year

In the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, the adjustment equals the total depreciation for the year reported, plus or minus the change in Compensated Absences between the reporting year and the previous year. This number is supported by figures in Note IV and in Note I-G below.

G. Paid Time Off (PTO) and Sick Leave

Under the District's personnel policies, employees are granted Paid Time Off (PTO) in varying amounts based on their length of service. PTO accrual varies from 4.9 to 11.1 hours bi-weekly. Sick leave is no longer accrued. The limit on the accumulation of PTO is 480. Upon termination from the District by employees are paid accrued PTO and a percentage of extended sick leave as referenced in the Personnel Policy Handbook.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Fund Deficit

At December 31, 2012, the District's General Fund had a deficit fund balance of \$ N/A. The deficit is expected to be eliminated by future revenue sources.

B. Expenditures were Under Budget

During 2012, actual expenditures, \$807,772.98, were less than the budgeted expenditures, \$890,913.00, by \$83,139.02.

C. Uncollateralized deposits

During 2012, the District's deposits with financial institutions did not exceed insurance, surety bond, or collateral.

III. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Supervisors. At December 31, 2012, the District's deposits totaled \$ 287,275.63 of which \$ 212,275.63 was cash deposits and \$ 75,000.00 was invested in certificates of

III. DEPOSITS AND INVESTMENTS (continued)

deposit. Minnesota Statutes require that all District deposits be covered by insurance, surety bond, or collateral. At December 31, 2012, all the District's deposits were covered by insurance or collateralized with securities held by the District or its agent in the District's name.

IV. CHANGES IN CAPITAL ASSETS

Balance January 1, 2012	\$ 135,102.57
Additions	0.00
Deletions	0.00
2012 depreciation	\$ 14,339.78
Balance December 31, 2012	\$135,102.57

Note: Beginning and Ending Balance are net of accumulated depreciation, which total \$33,293.45 as of December 31, 2012.

The District uses a threshold of \$1,000.00 for capitalizing assets purchased. Those physical assets under \$1,000.00 are expenses directly and not capitalized.

V. DEFERRED REVENUE

Deferred Revenue represents unearned advances from the Minnesota Board of Water and Soil Resources for various programs. Revenues will be recognized when the related program expenditures are recorded.

Total Deferred Revenue as itemized on "Deferred Revenue Breakdown" is \$ 88,446.26.

VI – B. ADJUSTMENTS TO FINANCIAL STATEMENTS

See Note 1-F.

VII. COMPENSATED ABSENCES PAYABLE

Changes in long-term debt for the period ended December 31, 2010 are:

Balance January 1, 2012	\$ 15,987.17
Net Changes in Compensated Absences	1,622.84
Balance December 31, 2012	\$ 14,364.33

VIII. 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 Insurance Trust. The District is covered for errors and omissions through Minnesota Counties Insurance Trust.

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

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

IX. PENSION PLAN

A. Plan Description

The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA provides retirement benefits as well as disability to members, and benefits to survivors upon death of eligible members. PERA administers the Public Employees Retirement Fund (PERF). The plan and its benefits are established and administered in accordance with Minnesota Statute Chapters 353 and 356. PERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement Association, 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-1855.

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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2012. The District was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.00% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 7.25% effective January 1, 2011. The District's employer share of contributions to PERA for the years ending December 31, 2012, 2011, and 2010 were \$11,695.20, \$9,939.60, and \$7,998.55 respectively, equal to the contractually required contributions for each year as set by Minnesota Statute.

X. OPERATING LEASES

The District leases office space on a yearly basis. Under the current agreement, total costs for 2012 were \$ 11,763.96.